Annual Report

2002

IN LINE WITH YOUR LIFE®

TEAMWORK TRANSPARENCY PERFORMANCE

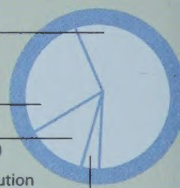
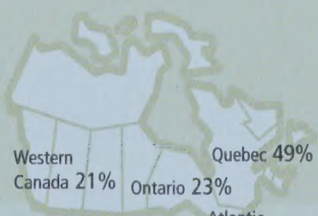
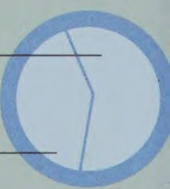
INDUSTRIAL ALLIANCE®
INSURANCE AND FINANCIAL SERVICES

INDUSTRIAL ALLIANCE
at a Glance

A century old life and health insurance company, Industrial Alliance is an industry leader in the field of insurance and financial services in Canada. The Company offers a full range of products and services that are distributed through a multi-channel distribution network and designed to answer the needs of individuals and various types of companies and group clients.

Industrial Alliance has experienced consistent growth over the decades due to its varied and well-balanced profitability sources. Known for its financial solidity and dynamic approach, the Company has become a major financial group of nation-wide importance, the Industrial Alliance Group, with operations across Canada.

The table below presents an overall view of the Company's various sectors, its diversification on many levels, as well as data that confirm the superior growth rate displayed by Industrial Alliance over the past five years in comparison to the industry.

		Diversification[1]				
		Geographic Distribution	**Distribution of Premiums**	**Contribution to Net Earnings**	**Distribution of Invested Capital**	**Multi-Channel Distribution Network** (Sales)
Protection	**Individual Insurance**	Premiums by region  Western Canada 21%; Quebec 49%; Ontario 24%; Atlantic Provinces 4%; Outside Canada 2%	**30%**	**52%**	**53%**	 **54%** Insurance brokers (General Agents network); **25%** Career Agents network; **15%** Securities brokers (National Accounts network); **6%** Alternative distribution
Protection	**Group Insurance**		**21%**	**12%**	**9%**	▪ Actuarial consulting firms ▪ Specialized brokers ▪ Insurance brokers (General Agents network) ▪ Career Agents network
Wealth Management	**Individual Annuities**	Premiums by region  Western Canada 21%; Quebec 49%; Ontario 23%; Atlantic Provinces 5%; Outside Canada 2%	**26%**	**22%**	**21%**	 **57%** Insurance brokers (General Agents network); **43%** Career Agents network
Wealth Management	**Group Pensions**		**23%**	**14%**	**17%**	▪ Specialized brokers ▪ Actuarial consulting firms ▪ Career Agents and General Agents networks

Notes

[1] Data found under Diversification was calculated based on annual arithmetic means over the last three years.

[2] Industry data was obtained from the following sources: Canadian Life and Health Insurance Association, Investor Economics, Life Insurance Marketing and Research Association (LIMRA) and Beyon 20/20. Also, unless otherwise indicated, the data pertaining to the five year growth rate are compound annual growth rates for the period between 1997 and 2002.

[3] Adjusted to take into account goodwill expense.

[4] Four year growth rate.

Scope

Data as at December 31, 2002

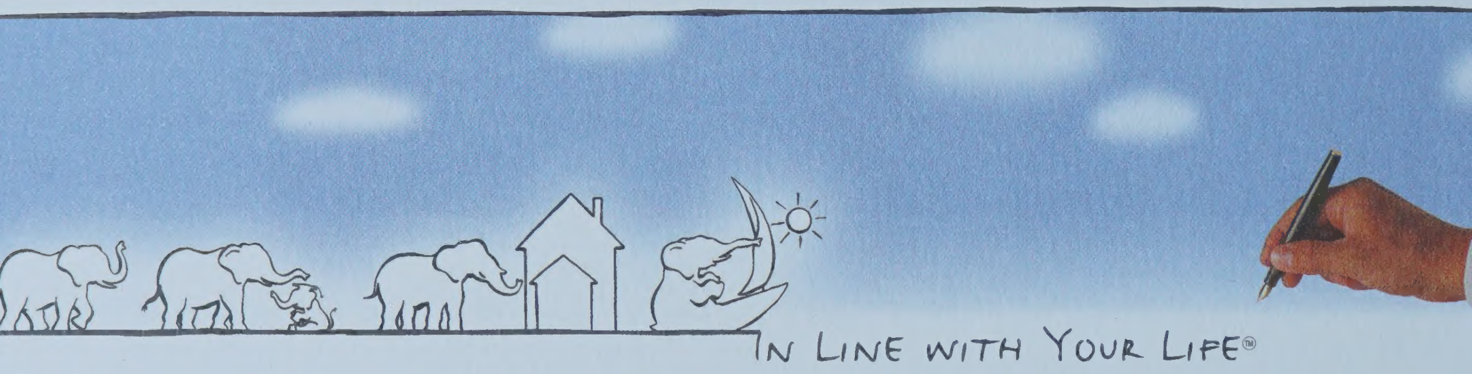
- Rank: 7th largest life and health insurance company in Canada
- Assets: $16.8 billion
- Return on equity: 14.0%[3] (2000-2002 compound rate)
- Premium income: $2.3 billion
- Employees: 2,110
- Agents: Over 15,000 exclusive agents and brokers
- Insureds: Over 1.5 million Canadians

		Growth[2]			
		5 Year Growth Rate		2002 Market Position	
Main Products		IAG	Industry	Share	Rank
Life insurance Health and disability insurance Critical illness insurance Mortgage insurance Auto and home insurance	Sales	15.5%	5.2%	12.9%	2nd
	In-force	12.2%	3.9%[4]	7.3%[5]	5th [5]
Life insurance Health and disability insurance Accidental death and dismemberment (AD&D) Travel medical and health insurance Critical illness and home care insurance Employer and employee support programs	Sales				
	▪ Employee Plans	37.8%	6.5%	8,2%	5th
	▪ Group Creditor Insurance	78.0%[4]	n/a	Over 33%	1st
	▪ Special Markets Group (SMG)	41.5%[6]	n/a	n/a	n/a
Retirement savings products (RRSP, RSP) Registered education savings plans (RESP) Annuity products (RRIF, life and fixed-term annuities) Investment vehicles: segregated funds, mutual funds and guaranteed investments	Sales				
	▪ General funds and segregated funds	2.4%	0.6%[7]	5.6%	n/a
	Net sales				
	▪ Segregated funds	n/a	(27.8%)	14.4%	3rd
	Assets under management				
	▪ Segregated funds	16.0%	13.7%	7.2%	5th
Retirement savings products (RRSP, SPP, RPP) Annuity products (insured or guaranteed annuities, RRIF) Investment vehicles: segregated funds and guaranteed investments	Sales	22.0%[8]	n/a	5.8%	Top 5

2001 data.
Three year growth rate.
Based on the assumption that the 2002 industry rate is equivalent to that of the Industrial Alliance Group (IAG).
Excluding the Canadian Medical Association.

TEAMWORK TRANSPARENCY PERFORMANCE

Since its creation, Industrial Alliance has become a financial institution of Canada-wide importance. The Company has pursued its development by relying on three pivotal elements that can be summarized in three words: teamwork, transparency and performance.



A Century Old Company

Founded in 1892, Industrial Alliance is a nation-wide life and health insurance company that offers a wide range of insurance and financial products.

The seventh largest life and health insurance company in Canada, Industrial Alliance insures over 1.5 million Canadians.

In order to promote its products and services, Industrial Alliance launched a new TV commercial in fall 2002. The commercial uses animation techniques to feature the Company's best known symbol, an elephant, following a line that is punctuated with various events that refer to the dreams people have at different stages in life: dreams of a home, a family, a comfortable retirement...

The commercial also introduces a new slogan – *In Line with Your Life* – which faithfully reflects the Company's mission to accompany its clients throughout the course of their lives.

At 110 years young, Industrial Alliance continues to grow at a very constant and dynamic pace that is in line with the needs of its clients.

Why the Elephant?

Ten years ago, Industrial Alliance chose the elephant as its company symbol; a choice that was made based on the numerous attributes that the Company has in common with this magnificent animal...

Industrial Alliance and the elephant both share tremendous strength. Both are also overflowing with energy and can easily take on even the most colossal of tasks.

Industrial Alliance and the elephant both personify solidity and inspire confidence; they also convey a stable and reassuring presence in their surrounding environment.

A century old company, Industrial Alliance is also known, like the elephant, for its longevity and proverbial memory.

In addition to its imposing stature, the elephant is also recognized for its strong sense of family and responsibility, two values that are equally fundamental for Industrial Alliance.

Finally, the elephant is synonymous with warmth and gentleness. At Industrial Alliance, we feel very strongly about our clients' values. We are ever attentive to their needs, which allows us to better understand and serve them according to their individual objectives.

Highlights

(Consolidated financial data[1])

Years ended December 31 (in millions of dollars, unless otherwise indicated)

	2002	2001	Variation
Profitability			
Total net income	106.8	106.6	–
Net income to participating policyholders	6.1	2.7	126%
Net income to shareholders	100.7	103.9	(3%)
Goodwill expense	–	3.4	–
Adjusted net income	100.7	107.3	(6%)
Provision for Teleglobe	19.4	–	–
Normalized net income	120.1	107.3	12%
Rate of return on equity			
Excluding goodwill expense	12.2%	14.4%	–
Excluding goodwill expense and provision for Teleglobe	14.4%	14.4%	–
Earnings per share (basic and diluted)			
Excluding goodwill expense	$ 2.66	$ 2.84	$ (0.18)
Excluding goodwill expense and provision for Teleglobe	$ 3.18	$ 2.84	$ 0.34
Business Growth			
Total premiums			
Including CMA[2]	2,337.2	2,077.0	13%
Excluding CMA	2,335.7	1,889.0	24%
Sales			
Individual Insurance (excluding CMA)	133.3	135.6	(2%)
Group Insurance			
Employee Plans	92.4	59.1	56%
Special Markets Group (SMG)	65.7	32.3	103%
Creditor Insurance	124.5	108.0	15%
Individual Annuities	590.7	529.1	12%
Group Pensions (excluding CMA)	561.3	344.1	63%
Financial Position			
Capital base	1,182.5	1,103.2	7%
Assets under management/administration	16,760.9	15,128.6	11%
MCCSR[3]	186%	187%	–
Quality of Investments			
Net impaired investments as a % of investments	0.22%	0.28%	–
Bonds: rating BB and lower as a % of the portfolio	0.11%	0.03%	–
Mortgage loans: delinquency rate	0.74%	0.48%	–
Stocks: market value/book value ratio	96.1%	98.2%	–
Real estate: occupancy rate	92.1%	96.3%	–
Human Resources			
Number of employees (life insurance companies)	2,110	2,035	+75
Number of Career agents	1,310	1,270	+40

[1] For further detail, please see *Five-Year History – Consolidated Financial Data.*

[2] Canadian Medical Association

[3] Minimum Continuing Capital and Surplus Requirements: Ratio

Summary

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Beyond Compliance, to Transparency

Raymond Garneau
Chairman of the Board

The series of financial scandals that shook the business world in 2002 have brought the issue of corporate governance to the forefront of media attention. Investors are worried, and companies must now show that they are more stringent, transparent and ethical in their business practices than ever before.

In the sector in which we operate, life and health insurance, we are responsible for managing and protecting public savings. For a number of years now, financial institutions have been subject to stricter regulations than other sectors of economic activity. In addition to complying with the regulatory requirements of the Toronto Stock Exchange and the securities commissions, Industrial Alliance is also subject to the *Insurance Act* and the regulatory framework of the Inspector General of Financial Institutions (IGFI), while its life insurance subsidiaries are regulated by the Office of the Superintendent of Financial Institutions (OSFI). Our insureds are also protected by the Canadian Life and Health Insurance Compensation Corporation (CompCorp), of which Industrial Alliance is a member.

Sound Corporate Management

Within this strict regulatory framework, the Board of Directors is devoted to respecting high standards of corporate governance in order to protect the interests and rights of policyholders as well as shareholders. In 2002, the Board carefully studied the corporate governance guidelines issued by the various regulatory authorities and is of the opinion that Industrial Alliance complies with them.

Moreover, the Board has broadened the mandate of the Human Resources Committee to make sure that the Company fulfils its obligations in matters of corporate governance. The name of the committee has been modified to reflect this expanded role, and it is now called the Human Resources and Corporate Governance Committee.

One of the major components of corporate governance at Industrial Alliance was the introduction of standards of sound business and financial practices in 1998. These practices are adopted annually by the Board, which uses them as a guide to orient, control and evaluate the Company and its management. These standards apply to all lines of business and all Company operations.

Also, to assure shareholders and all other interested parties that the results disclosed by the Company comply with those actually obtained, on behalf of the Board, the President and CEO signs the financial statements and guarantees their accuracy.

In 2000, we separated the roles of the Chairman of the Board and the President and CEO. Also, with the exception of the President and CEO, all Board members are unrelated to the Company. They are selected on the basis of their competency, but also with a view to ensuring that the Board is made up of both men and women and that all regions in which the Company has operations are represented. In 2001, the Board carried out a self-evaluation through an internal survey. The purpose of this evaluation was to assess the Board's effectiveness and establish objectives to make sure it constantly improves.

With respect to the directors, each one will now be elected by a separate vote of the shareholders. Their remuneration excludes any compensation based on Company performance and they are not granted any stock options. In 2002, the Board also adopted a policy to encourage directors to hold common shares or phantom shares equal to about 1,000 shares of Industrial Alliance.

Also, starting in 2003, all stock options will be recorded as expenses in the Company's financial statements to ensure greater financial transparency. Each year, the Company also discloses the fees paid to its external auditors, as well as the scope of the work entrusted to them outside of auditing the financial statements.

Board of Directors Activities

In 2002, the Industrial Alliance Board of Directors held six regular meetings, and the various committees met 25 times. These meetings had an attendance rate of over 90%. On two occasions during its regular meetings, the Board met in the absence of management, including the President and CEO.

Each year for the last several years, the Board has held a full day meeting on long-term strategic planning and reviewed the primary risks and the implementation of systems to control these risks. It also reviewed the Company's investment policy in order to improve portfolio diversification and adopted the Company's annual operating plan.

Among the subjects that are normally part of its mandate, in 2002, the Human Resources and Corporate Governance Committee focused on evaluating senior management and remuneration programs. The Audit Committee, which is responsible for approving the financial statements and any disclosure of Company results, met seven times. The mandate of each Board committee has been reviewed in order to more accurately reflect new trends in corporate governance.

The Board also carried out a thorough evaluation of the work of the President and CEO. All Board members were asked to provide a confidential assessment of the President and CEO's performance based on seven pre-determined qualitative criteria.

A Culture of Dialogue and Transparency

In the best long-term interest of the shareholders, Industrial Alliance aims to find the right balance between prudence and conservatism in matters of financial reporting, and dynamism and entrepreneurial spirit, which are crucial to the Company's business growth. This is why the Board places a great deal of importance on the personal values and leadership of its members.

The Board of Directors is a forum for the exchange of ideas. Over the years, Industrial Alliance has developed a culture of dialogue where each individual feels free and is encouraged to express their ideas. Management has made it their duty to provide a real picture of current issues concerning the Company and to share their concerns with Board members. Moreover, since it takes more than just codes, rules and standards to have an efficient board of directors, management embraces a culture that promotes honesty, judgment and ethical conduct.

At Industrial Alliance, in the interests of transparency and honesty, we decided a long time ago to go beyond simple compliance in the management of our operations. To cite just a few examples, Industrial Alliance was the first insurance company in Canada to disclose its embedded value, and was the first to do so by fund category. One of the Company's more recent innovations has been the disclosure of a new financial analysis tool that identifies the sources of earnings by line of business on a quarterly basis.

Industrial Alliance also adopted a Disclosure Policy at the beginning of 2003. The purpose of this policy is to ensure the prompt, timely and equitable disclosure of accurate information, both internally and externally.

These various initiatives demonstrate Industrial Alliance's ongoing commitment to helping shareholders grasp the intricacies of the Company's business and understand the value creation process at the Company.

Appreciation

On behalf of the Board, I wish to thank Jean Marier, who will be leaving the Board at the Company's annual meeting in May 2003. A Board member since 1978, Mr. Marier was a member of the Board's Audit Committee and, more recently, a member and Chairman of the Investment Committee. A partner with the law firm Desjardins Ducharme Stein Monast, during his career Mr. Marier took an interest in the taxation and management of medium-sized businesses. We sincerely thank Mr. Marier for his participation in the Board of Directors and the interest he has shown in the Company.

Finally, I wish to thank the members of the Board of Directors for their support, the management personnel for their constant focus on reaching the corporate objectives, the shareholders for their unwavering confidence, and all Industrial Alliance Group employees for their commitment.

Raymond Garneau

Industrial Alliance had one of its best years ever in terms of business growth in 2002, with higher sales than the industry in most lines of business, and a net profit of over $100 million for a second consecutive year, in spite of a sometimes difficult economic and financial environment.

A good part of the Company's success comes from its business philosophy, which is founded on two very simple principles: prudence and conservatism for its balance sheet, and dynamism and entrepreneurial spirit for its business growth.

Profitability

In terms of profitability, a solid year-end enabled the Company to end the year 2002 with net income of $100.7 million ($2.66 per share), compared to $107.3 million ($2.84 per share) in 2001 on a comparable basis (Figure 1).

The Company had to deal with two trying events in 2002: the taking of a provision to cover the Teleglobe bonds and the behaviour of the stock markets, which were down for the second straight year. Excluding the Teleglobe provision, which reduced the net income by $19.4 million, the Company would have ended the year with net income of $120.1 million ($3.18 per share), an increase of 12% compared to 2001. This profit would have translated into a 14.4% return on equity (12.2% including the Teleglobe provision). This rate would have been in the upper end of the Company's 13% to 15% target range.

The two protection sectors obtained the best results in 2002: Individual Insurance, thanks to the income earned on its constantly growing block of in-force business and excellent mortality and lapse experience; and Group Insurance, thanks to the pricing adjustments implemented over the last few years and the favourable mortality and morbidity results.

1 **Profitability**

	Net Income	Earnings per Share[1]	Return on Equity
	$Million	$	%
2001[2]	107.3	2.84	14.4
2002			
Including the provision for Teleglobe	100.7	2.66	12.2
Excluding the provision for Teleglobe	120.1	3.18	14.4

[1] Basic and diluted

[2] The 2001 data have been adjusted to take into account the new accounting rules concerning goodwill expense.

It is estimated that the stock market decline resulted in a $9.3 million decrease in net income in 2002. The impact was felt most in the Individual Annuities sector, mainly due to the decrease in fee income on funds under management, increased reserves for the segregated funds guarantee and the decrease in the amortization of net gains on assets backing the capital.

On the other hand, two factors counterbalanced the stock market downturn: net fund entries of $2.2 million, following the favourable settlement of a long outstanding lawsuit, and a $3.0 million tax adjustment, resulting primarily from a decision made by the tax authorities with respect to previous years.

Overall, for 2002, the Individual Insurance sector accounted for 57% of the Company's net income, Group Insurance 17%, Individual Annuities 16% and Group Pensions 10% (these figures exclude the Teleglobe provision).

There are two things to point out with respect to each of these sectors' contributions to the Company's earnings: the Group Insurance sector obtained the best results in its history in 2002 thanks to experience gains in all market segments, while Individual Annuities still hasn't reached its full potential. This sector's full profitability potential will be gradually reached as the stock markets return to more normal growth rates.

The Company adopted a resolution in 2002 to issue new stock options. If the cost of these stock options had been accounted for in 2002, the earnings per share would have been $0.09 lower for the year. The Company will begin expensing stock options in 2003.

The Company also increased its dividend during the year. It paid out quarterly dividends of $0.15 in the first two quarters and $0.17 in the last two quarters of 2002. These dividends represent a total amount of $24.1 million, for a payout ratio of 23.9% (20.1% excluding Teleglobe). The Company's dividend policy is to pay out a dividend between 20% and 30% of sustainable earnings and comparable to that of other Canadian demutualized companies.

Business Growth

In terms of business growth, strong sales in the fourth quarter enabled the Company to finish the year with $2.3 billion in premium income, up by 24% compared to 2001, excluding the Canadian Medical Association (CMA) business.

The Group Insurance and Group Pensions sectors obtained the best results in 2002, generating record sales through the signing of major contracts with Bombardier in Group Insurance and National Bank Trust in Group Pensions.

2002 was also one of the best years in the Company's history in terms of sales growth. We once again reached our sales growth objective of five percentage points higher than the industry in all lines of business, except Individual Insurance, where sales growth was comparable to the industry (Figure 2).

Here are the year's highlights for each line of business:

- A solid year-end allowed the Individual Insurance sector to make up for a good portion of the shortfall accumulated during the year. According to the most recent data, the decrease in the Company's sales for 2002 (-2%) is comparable to that of the industry. Industrial Alliance ranked second in terms of individual insurance sales in Canada in 2002, with a 12.9% market share.
- An excellent fourth quarter allowed the Individual Annuities sector to end the year with a 12% growth rate in sales for the year. In comparison, the mutual funds industry finished the year with a 10% decrease in gross sales. Net segregated fund sales for the Company remained positive at $152.1 million for 2002. The Company was ranked third in Canada with respect to net segregated fund sales for 2002 (one rank better than the previous year), with a 14.4% market share.
- Group Insurance had a record year in terms of employee plan sales thanks to the signing of an agreement with Bombardier (sales grew by 56% in 2002).
- A good year for the Group Creditor Insurance sector, with sales growing by 15% in 2002. This growth is explained by strong car sales, as well as by the acquisitions made in this sector in the last two years. The Company is the Canadian leader in the creditor insurance market among automobile dealers.
- A record year for sales in the Special Markets Group (SMG) sector, with sales doubling in 2002 thanks to the underwriting of two groups in particular. This sector has specialized in accident insurance for several years, becoming the largest provider of this product to students in western Canada.
- Finally, Group Pensions had an excellent year (sales grew by 63%) thanks to the transfer of National Bank Trust's group retirement plans. This transfer took place in two phases: a first block of some $200 million in assets was transferred in the first quarter of 2002, and a second block of some $200 million was transferred on January 1, 2003. The Company is ranked among the top five Canadian providers in the Group Pensions sector.

2 **Business Growth**

	Growth in 2002		
	IAG[1]	Industry[2]	Rank[2]
Premium income	24%	—	7th [3]
Sales			
Individual Insurance	(2%)	(3%)	2nd
Individual Annuities			
Sales (general funds and segregated funds)	12%	(10%)[4]	7th [3]
Net sales (segregated funds)	(24%)	(52%)	3rd
Group Insurance			
Employee Plans	56%	(19%)	4th
Creditor Insurance	15%	n/a	1st [5]
Special Markets Group (SMG)	103%	n/a	n/a
Group Pensions	63%	n/a	Top 5

1 Excluding amounts paid under the agreement with the Canadian Medical Association
2 Data from LIMRA, IFIC, Investor Economics and Beyond 20/20
3 Estimate
4 Mutual funds industry
5 Group creditor insurance among automobile dealers

Assets under management and under administration grew by 11% in 2002, reaching $16.8 billion as at December 31, 2002. This increase was generated by strong premium income and the contribution of the new Industrial Alliance securities subsidiary, created earlier in the year.

We can see that the Industrial Alliance Group has achieved strong market positions in Canada in all sectors in which it operates.

"Industrial Alliance had one of its best years ever in terms of business growth, with higher sales than the industry in most lines of business, and a net profit of over $100 million for a second consecutive year."

Acquisitions

In terms of acquisitions, we pursued our growth strategy in the wealth management sector by buying the operations of three securities brokerage firms and a 25% share in FundEX, a mutual fund broker.

The three securities brokerage firms were combined to form a new subsidiary, Industrial Alliance Securities, which administered assets of $313 million as at December 31, 2002.

As for FundEX, it complements the operations of Investia Financial Services, an Industrial Alliance subsidiary that distributes mutual funds. Investia, which merged with Groupe Financier Concorde in 2001, managed $437 million in assets as at December 31, 2002.

These acquisitions are part of the Company's growth strategy to further expand its distribution capacity in all financial services fields, as well as provide its representatives with a full line of financial products.

Thanks to these acquisitions, Industrial Alliance now has subsidiaries in several pillars of the financial sector, i.e., life and health insurance, segregated funds, mutual funds, securities brokerage, trust and auto and home insurance.

Development Strategy

The consolidation within the life and health insurance industry has taken new twists in the last few months, with Sun Life's purchase of Clarica and the Canada Life takeover bid by Great-West.

From a strategic standpoint, these transactions should not have a significant impact on the Company. In fact, based on past experience, it is likely that these transactions will create new business opportunities.

Indeed, life insurance is an intangible product that is distributed through agents. These agents want to be able to offer their clients a choice. They will always be inclined to do business with companies that, regardless of their size, have a competitive line of products and services and that can back them in their business development. This is precisely one of the Company's strengths.

Industrial Alliance Group

Competitive Advantages

- Entrepreneurial culture that favours innovation and performance
- Well thought-out and efficient business strategy that focuses on mutually profitable relationships with representatives
- Reputation for excellence in the area of insurance and investment risk management
- Qualified, internally-trained personnel, who are focused on achieving the Company's long-term business growth and profitability objectives

Strategy

- Further strengthen our multi-channel distribution network by attracting new distributors and becoming their INSURER OF CHOICE
- Accelerate our growth in wealth management
- Use our national infrastructure to support the geographic expansion of certain sectors, particularly Group Insurance and Group Pensions

Industrial Alliance is recognized in the market as a company that respects its business partners. It has built a reputation as a long-term partner that provides its agents with constant coaching and support, so that they are the driving force behind their own success.

Moreover, not only does Industrial Alliance offer a complete line of insurance products and financial services, it also has cutting edge sales and management tools. These combined assets enable agents to provide their clients with sound, professional advice.

Hence, the current competitive environment does not affect our capacity to compete with any company in the market. That is why we have renewed the two major financial objectives that we have set for ourselves in the last few years:

- Obtain a rate of return on equity between 13% and 15%.
- Achieve a growth rate of sales five percentage points higher than the industry for each line of business.

Financial Objectives

- Profitability: return on equity between 13% and 15%
- Business growth: growth of sales five percentage points higher than that of the industry

To reach these objectives, we have pinpointed a strategy for each of our lines of business. The main components of this strategy focus on the following three elements:

- Further strengthen our multi-channel distribution system by attracting new distributors and by becoming their insurer of choice. The Company already relies on different distribution networks to offer its products, which is our primary strength. Our goal is to grow our various networks in all regions of the country.
- Accelerate our growth in wealth management. In the face of the current industry consolidation, we intend to accelerate the development of our mutual fund and securities subsidiaries. We also plan to leverage our distribution networks by promoting our insurance products and segregated funds to mutual fund distributors and securities brokers.
- Use our Canada-wide infrastructure to support the geographic expansion of certain sectors, particularly Group Insurance and Group Pensions. Our objective in the Group Insurance sector is to be recognized as a national insurer, a status we have achieved in the Individual Insurance and Annuities sectors. In Group Pensions, we plan to focus on developing the Ontario and Atlantic provinces markets. Finally, in the Special Markets Group segment of the Group Insurance sector, which is being developed by our Vancouver subsidiary, we plan to penetrate the Quebec market, backed by the parent company's strong brand identity, and increase our market share in the Atlantic Provinces market.

Conclusion

When the Company demutualized, the Board of Directors gave management a clear mandate: to pursue, indeed accelerate the Company's growth, both organically and through acquisitions, and continue to expand the Company's financial service operations.

That is what we have done in the last few years and what we continue to do today. We still have the same goal: to pursue the development of the Company and create value for the shareholders.

We have succeeded in standing out in the market through a combination of several key characteristics: an entrepreneurial culture that favours innovation and performance; a well thought-out and efficient business strategy that focuses on mutually profitable relationships with our agents; a reputation for excellence in insurance and investment risk management; and qualified, internally trained personnel, who focus on achieving the Company's long-term business growth and profitability objectives.

Since it was created over 100 years ago, Industrial Alliance has become a large, Canada-wide financial institution. Industrial Alliance has pursued its development by relying on three pivotal elements, which can be summarized in three words: teamwork, transparency and performance.

Thank you.

Yvon Charest

Vincent P. Tonna – C.G.A.
President and COO
National Life

Yvon Côté – CFA
Vice-President and General Manager
Finance and Investments

Yvon Charest – F.S.A., F.C.I.A.
President and CEO

John B. Gill – M.B.A.
President
Industrial Alliance *Pacific*

Normand Pépin – F.S.A., F.C.I.A.
Executive Vice-President
Life Subsidiaries &
Individual Insurance and Annuities

Industrial Alliance Group Planning Committee

TEAMWORK
Every Step of the Way

TEAMWORK /ˈti:mwɜrk/ *n.* The combined action of team, group etc., especially when effective and efficient.

(*Canadian Oxford Dictionary*)

At Industrial Alliance, we decided that instead of building teamwork like a chain and linking individual needs and tasks one behind the other, we would construct teamwork like a rope by weaving all of our values and objectives together into a single entity. For if a link in the chain breaks just because a single task is not performed, the whole chain becomes useless, but if a strand in the rope breaks, the entire length of the rope still remains strong.

This philosophy, which is borrowed from author Bernard Benson, is reflected in the close collaboration displayed between our different lines of business and the tight-knit bonds that we reinforce daily with members of our sales force. In fact, it is thanks to the continued efforts of employees who place their skills and strengths at the service of colleagues whenever needed that we have been able to build such a solid and unified company.

The commitment and desire to excel that characterizes each and every Industrial Alliance employee, and which are underlined through several Company recognition programs, have slowly engendered a collective will to succeed. Today, working at Industrial Alliance is synonymous with being part of a dynamic and performing team and channelling one's talents towards the achievement of a common and single goal: success!

Industrial Alliance: pulling together... every step of the way!

TRANSPARENCY /trænsˈpærənsi/ *n.*
The quality or state of being transparent; that which is easily understood, lucid, clear.

(*Gage Canadian Dictionary*)

Nicolas Boileau, a 15th century French poet and critic said: "What is clearly understood can be clearly expressed." Likewise at Industrial Alliance, we feel that it is important that our clients and investors have a clear-cut picture of the solid bases we rely on to measure our success. And since the present is an indication of the future, we strive to continue presenting an accurate reflection of all our activities in the utmost detail in order to pursue our tradition of transparency.

Industrial Alliance was the first North American life and health insurance company to disclose its embedded value, a valuable tool that can be used to evaluate a company's worth. Industrial Alliance was also the first to divulge its embedded value according to two major fund categories: general funds and segregated funds. The Company further innovated by publishing its sources of earnings for each line of business and on a quarterly basis. This crucial information allows analysts and investors to obtain a clear view of the Company's value creation process.

Our ultimate goal: to make sure that financial markets fully understand the inner workings of Industrial Alliance in order to ensure that our stock price accurately reflects the Company's true worth.

Industrial Alliance: a straightforward approach... every step of the way!

PERFORMANCE /pə(r)ˈfórmən(t)s/ *n.*
The ability to perform; capacity to achieve a desired result.

(*Merriam-Webster Dictionary*)

Since its creation in 1892, Industrial Alliance has maintained elevated standards of performance, both on an individual and a collective scale. Despite the economic pitfalls of doing business in the 20th century, the successes that have marked the Company's history bear witness to the determination of its leaders and the satisfaction of its clients, the number of which has continued to climb over the past eleven decades.

Even in today's fiercely competitive market, Industrial Alliance enjoys an enviable reputation and is recognized as a leader in the Canadian insurance and financial services industry. The Company continues to place the well-being of its insureds and, since its demutualization, the success of its thousands of trusting investors, at the forefront of its priorities.

Despite the tremendous growth and success the Company has seen over the past century, Industrial Alliance remains bound to its founding principle: people. Our vast nation-wide distribution network is a prime example of this. By remaining attentive to the individual needs of their clients, our network of agents and brokers reap the benefits of being part of a large group. This in turn allows them to offer their clients a complete range of products and services that answer their needs, thus allowing them to enjoy true peace of mind while providing them with the means to turn their dreams into reality.

Industrial Alliance: results-oriented... every step of the way!

Industrial Alliance Insurance and Financial Services is a life and health insurance company whose origins date back to 1892. Today, the Company conducts its activities in the **insurance** and **financial services** sector.

Industrial Alliance's primary mission is to offer its insureds and their beneficiaries **financial protection** in case of death, disability or illness and to help them achieve **financial autonomy** in preparation for retirement or to make special dreams come true.

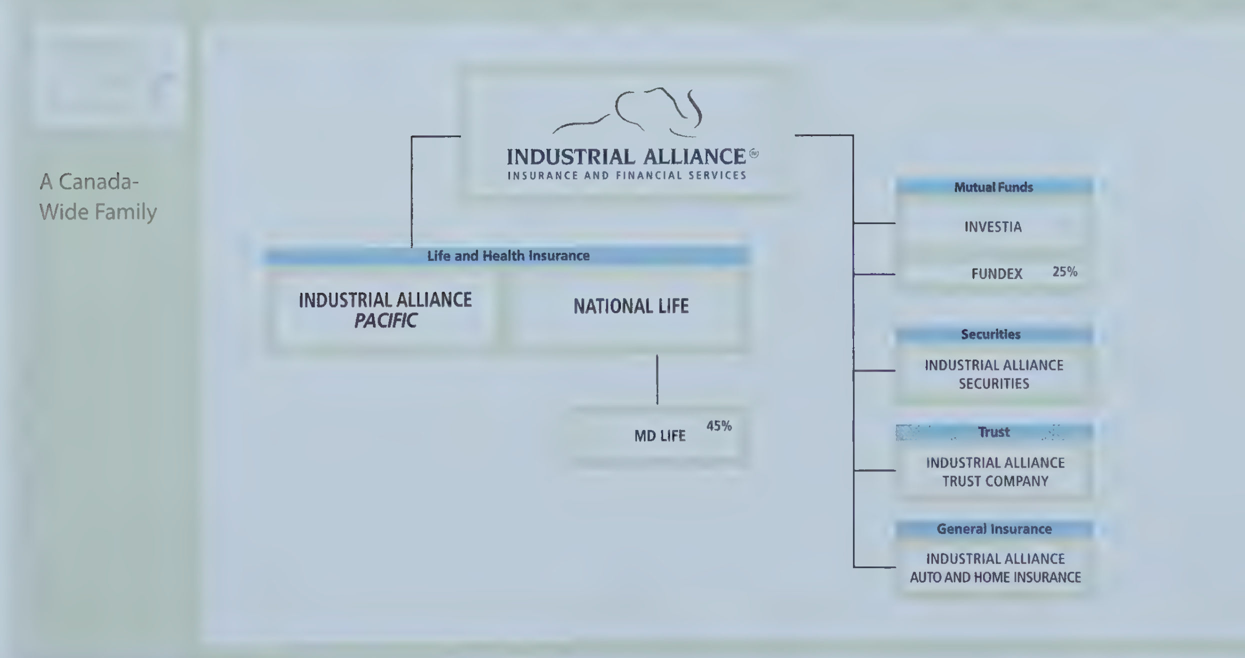
To accomplish this, the Company offers a **full range** of life and health insurance products, savings and retirement plans, RRSPs, investment funds, mortgage loans, securities brokerage services, auto and home insurance products as well as other financial products and services. These products are available either on an individual or group basis.

Thanks to its dynamic approach, Industrial Alliance has become a financial group of **nation-wide importance**, the Industrial Alliance Group, with operations across Canada. The Group distributes its products mainly through Industrial Alliance (Quebec City), National Life (Toronto) and Industrial Alliance *Pacific* (Vancouver).

The seventh largest life and health insurance organization in Canada, the Industrial Alliance Group stands out through the **size** and **diversity** of its **distribution networks**. The Group insures over 1.5 million Canadians, employs more than 2,000 people and manages over $16 billion in assets.

Industrial Alliance stock is listed on the Toronto Stock Exchange under the ticker symbol IAG and is part of the S&P/TSX Composite Index. As at December 31, 2002, the Company's market capitalization totalled $1.5 billion, ranking Industrial Alliance as **one of the 100 largest public companies in Canada**.

The Industrial Alliance Group



Management's Discussion
and Analysis of Results of Operations and Financial Position

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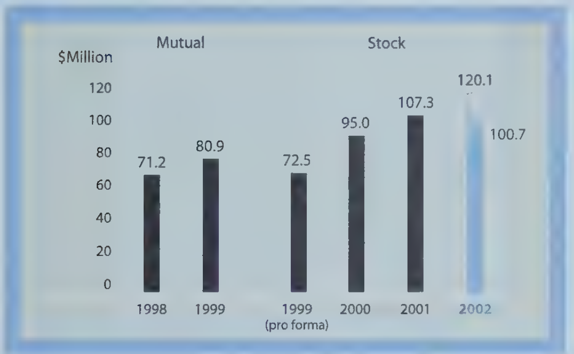
Forward-Looking Statements

This Annual Report may contain forward-looking statements about the operations, objectives and strategies of Industrial Alliance, as well as its financial situation and performance. These statements are subject to risks and uncertainties. Actual results may differ materially, due to a variety of factors, including legislative or regulatory developments, competition, technological changes, global capital market activity, interest rates, changes in demographic data, and general economic conditions in Canada or elsewhere in the world. This list is not exhaustive of the factors that may affect any of Industrial Alliance's forward-looking statements. These and other factors must be examined carefully and readers should not place undue reliance on Industrial Alliance's forward-looking statements.

Industrial Alliance obtained a net profit of over $100 million for the second consecutive year, a strong result in spite of a continuing difficult economic and financial environment in 2002.

After absorbing a $19.4 million write-down on the Teleglobe investment, shareholder net income amounted to $100.7 million in 2002 (Figure 3). This is 6% lower than the goodwill adjusted net income of $107.3 million in 2001 (goodwill has been adjusted to comply with new accounting standards).

3 **Net Income to Shareholders**[1]



Excluding the provision for Teleglobe

[1] Excluding unusual items and adjusted to exclude goodwill expense

Excluding the Teleglobe write-down, the Company achieved double-digit growth (12%) over 2001 with net income of $120.1 million, thanks to strong growth in earnings in the protection sectors, and in spite of higher new business strain than the previous year due to strong sales. Net income for the year however, was partially offset by lower results in the wealth management sectors.

2002 was a challenging year because of the Teleglobe provision, but also because of the poor returns of the equity markets, which posted a double-digit decline for the second year in a row. This reduced the Company's operating income on its wealth management business and income on capital through reduced management fees on lower segregated funds and universal life savings, increased actuarial reserves for segregated funds guarantees, and decreased amortization of net gains on assets backing capital. These factors resulted in a $9.3 million reduction of net income.

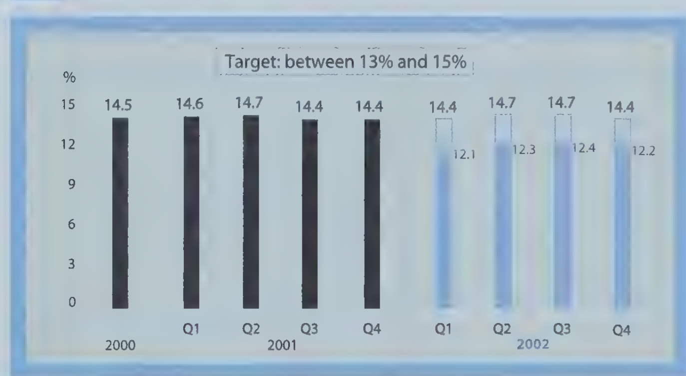
Nevertheless, this reduction was offset by the following positive factors:

- Strong core operating profits from our growing block of Individual Insurance business, and favourable mortality and lapse experience.
- Better than expected claims ratios in the Group Creditor Insurance and Special Markets Group segments, and very favourable mortality and morbidity experience for Group Insurance Employee plans.
- Favourable settlement of a long outstanding lawsuit.
- Tax adjustments resulting mainly from a decision by the tax authorities relating to previous years.
- Strict control of operating expenses in an environment of rapid business growth, and increased synergies within Industrial Alliance Group companies.

Return on Equity (ROE)

The return on equity since demutualization has consistently been above 13%, and reached 14.4% (excluding the Teleglobe provision) at the end of 2002. This return on shareholders' equity is in the upper end of the 13% to 15% range targeted by the Company (Figure 4). The Teleglobe provision reduced the Company's return by 2.2 percentage points in 2002.

4 **Return on Equity**[1]
Last Twelve Months



Excluding the provision for Teleglobe

[1] Excluding unusual items and adjusted to exclude goodwill expense

Earnings per Share (EPS)

Earnings per share for 2002 were $2.66 ($3.18 excluding the Teleglobe provision) compared to the goodwill-adjusted amount of $2.84 in 2001 (Figure 5).

5 **Earnings per Share**
Basic and Diluted[1]

Excluding the provision for Teleglobe

[1] Adjusted to exclude goodwill expense in 2001

Sources of Earnings (SOE)

In 2002, the Company was once again a leader in improved financial disclosure by providing sources of earnings statements by line of business, with a two-year history by quarter. Management believes that SOE reporting will help readers of our financial statements better understand the Company's sources of profits for each line of business, and more importantly, provide an early indication as to the expected trend in profits. The 2002 highlights for sources of earnings are as follows (Figure 6):

6 **Sources of Earnings by Component**

$Million	2002[1]	2001[2]
Operating profit		
Expected profit from in-force	184.4	170.8
Experience gains (losses)	(2.8)	(11.8)
Gain (strain) in sales	(59.6)	(51.4)
Changes in assumptions	2.0	0.8
Total	124.0	108.4
Income on Capital	40.0	45.4
Income Taxes	(43.9)	(46.5)
Net Income	120.1	107.3

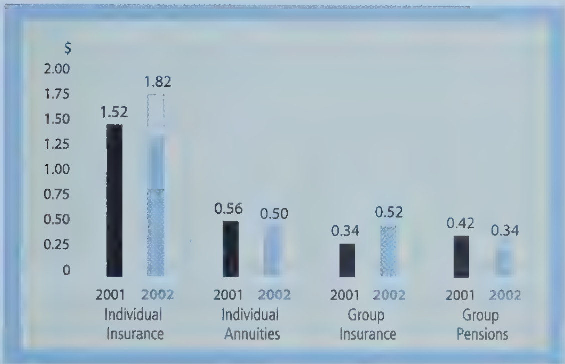
[1] Excluding the provision for Teleglobe
[2] Excluding goodwill expense

- The expected pre-tax profit on in-force business grew by 8% over the previous year, reaching $184.4 million in 2002 (excluding the provision for Teleglobe). The Company anticipates that the expected profit will grow at an annual rate of more than 10% over the next few years, particularly if the financial markets recover.
- The Company recorded experience losses of $2.8 million in 2002. Even though the two protection sectors obtained substantial experience gains in 2002, thanks to excellent mortality and morbidity experience, these gains were offset by experience losses in the two wealth management sectors, resulting primarily from the stock market downturn.
- The new business strain was $59.6 million in 2002, which is $8.2 million more than the previous year (excluding the provision for Teleglobe). The higher strain is mainly due to the change in the composition of universal life policy sales. Relatively speaking, the Company sold more level cost of insurance policies, which have a higher business strain, than yearly renewable term (YRT) policies. The strain is posted as a charge in the financial statements for the year in which the insurance contracts are sold. This strain is converted into profits in future years if the assumptions used in product pricing materialize.
- Changes in actuarial assumptions used to establish the provisions for future policy benefits resulted in a $2.0 million increase in Company profits in 2002. At the end of each year, the Company reviews these assumptions in order to take into account the Company's most recent experience and changes in the economic and financial environment. These changes mostly benefited the Individual Insurance sector. The gain recorded in 2002 is in line with previous years' experience.
- Income on capital reached $40.0 million in 2002, $5.4 million lower than the previous year's result (excluding the provision for Teleglobe). The reduction in the income on capital is primarily due to the stock market downturn.
- Income taxes totalled $43.9 million in 2002, $2.6 million less than in 2001 (excluding the provision for Teleglobe). This decrease is attributable to the fact that the Company benefited from $3.0 million in tax adjustments in 2002, resulting mainly from a decision by the tax authorities relating to previous tax years. The Company estimates that the tax rate for 2003 will be around 30%.

Earnings by Line of Business

Below is a summary of the results by line of business (See Figure 7 for earnings per share by line of business).

7 **Earnings per Share by Line of Business**[1]



Excluding the provision for Teleglobe

[1] Basic and diluted and, for 2001, adjusted to exclude goodwill expense

Individual Insurance — The Individual Insurance sector delivered strong results in 2002, with net income of $68.7 million, which is 20% higher than the previous year (excluding the Teleglobe provision). This income accounted for earnings per share of $1.82 or 57% of the Company's net income.

This result reflects solid profitability on our growing in-force block of business, including favourable experience on mortality and lapses. The actuarial reserves were reduced by $2.9 million at year-end (compared to $2.4 million the previous year) resulting from an update in the actuarial assumptions and changes in the valuation methods.

On the other hand, strain on new business was higher because of the change in the universal life sales mix between level and yearly renewable term cost of insurance policies, as explained earlier. Also, income on capital was lower due to market conditions, and this line of business attracted a higher allocation of income taxes.

Individual Annuities — Individual Annuities had another tough year as a result of the poor equity markets. Net income was $19.0 million or 11% lower than the previous year, accounting for earnings per share of $0.50 or 16% of the Company's net income (excluding the Teleglobe provision).

This line of business has been the hardest hit by the continued and prolonged market downturn, primarily due to the additional reserve requirements for the segregated funds guarantee as reflected in the experience loss in 2002. The results were also impacted by lower management fees as a result of the lower asset base. Lower taxes allocated to this sector helped to mitigate some of the impact.

Individual Annuities has still not reached its full profitability potential. This potential will be gradually achieved as the stock markets return to more normal levels of growth.

Group Insurance — Group Insurance ended the year with a record profit following the pricing initiatives of the last few years, close monitoring of experience, and strict expense control. Its net income of $19.8 million is 55% higher than the previous year, accounting for earnings per share of $0.52 or 17% of the Company's net income (excluding the Teleglobe provision).

Significant growth in the expected profit on in-force business in 2002 reflects the results of the Company's price strengthening initiatives, and growth of the business. Also, Group Creditor Insurance and Special Markets Group insurance business recorded better than expected claims ratios, while experience on mortality and morbidity for Group Insurance Employee plans business was very favourable. However, income on capital was lower due to market conditions, and this line of business attracted a higher allocation of income taxes.

Group Pensions — The Group Pensions line of business also had a tough year, with net income of $12.6 million, which is 20% lower than the previous year. This income accounted for earnings per share of $0.34 or 10% of the Company's net income (excluding the Teleglobe provision).

Expected profits on in-force business for 2002 were lower than for 2001, a reflection of the poor equity markets and lower interest rate environment. At the same time, experience losses increased as a result of lower mortality experience. A lower allocation of income taxes contributed to offset some of this shortfall.

Dividends

Industrial Alliance paid out quarterly dividends per common share of $0.15 in the first two quarters and $0.17 in the last two quarters of 2002. These dividends represent a total amount of $24.1 million, for a payout ratio of 23.9% (20.1% excluding the Teleglobe provision). The Company's policy is to pay out a dividend between 20% and 30% of sustainable earnings and comparable to that of the other Canadian demutualized companies.

Stock Options

The Board of Directors adopted a resolution to issue new stock options (473,000) in February 2002. These new options, which expire on February 12, 2012, were issued at an exercise price of $45.62. If the cost of these options had been accounted for in 2002, the earnings per share would have been $0.09 lower. The Company will begin expensing stock options in 2003.

The granting of stock options has not led to a dilution of the earnings per share under the accounting rules, since the average market value of Industrial Alliance stock in 2002 was generally lower than the exercise price of the stock options granted to date.

Summary

2002 started off on a negative note with the loss in value of the Teleglobe bonds at the end of the first quarter. The markets also continued their downward trend for the second year in a row, with tremendous volatility throughout the year, impacting our wealth management operations. Thanks to continuing strong results in Individual Insurance core operations, combined with strong results in Group Insurance operations, the Company was able to overcome most of these profitability challenges, and can now look to 2003 with confidence.

Embedded Value

Since Industrial Alliance and four other major insurers converted into stock companies, investors and financial analysts have been seeking to measure the value of insurance companies and get a better understanding of the various factors that can affect their performance.

In this respect, one of the best tools that companies can provide to investors and analysts is embedded value. Embedded value allows for an estimate to be made of a life insurance company's economic worth, excluding the value related to its distribution capacity.

8 **Embedded Value per Share**

	Embedded value[1]	Contribution to growth
	$	%
Value as at December 31, 2000	37.08	—
Recurring items	4.83	13.0
Experience gains (losses)	(0.93)	(2.5)
Changes in assumptions	(0.03)	(0.0)
Decrease in tax rate	0.72	1.9
Dividend paid to shareholders	(0.62)	(1.7)
Embedded value added	3.97	10.7
Value as at December 31, 2001	41.11	—
Embedded value ($million)	1,542	—
Embedded value/book value ratio (December 31, 2001)	1.95	—

[1] The data are not additive, since the number of outstanding shares increased in 2001.

In December 2000, Industrial Alliance became the first North American company to publish its embedded value. Industrial Alliance innovated once again in 2001 by becoming the first company to publish the components explaining the growth of its embedded value over the course of a year, between general funds and segregated funds.

By publishing its embedded value, Industrial Alliance is aiming to better inform investors and offer them an additional tool so that they can obtain a more accurate idea of the Company's worth.

Embedded Value

As at December 31, 2001, Industrial Alliance's embedded value reached $41.11 per share, an increase of 10.7% compared to December 31, 2000 (Figure 8). At the end of 2001, embedded value represented 1.95x the Company's book value. This is the highest ratio among the insurance companies that have disclosed their embedded value so far.

Embedded Value of New Sales

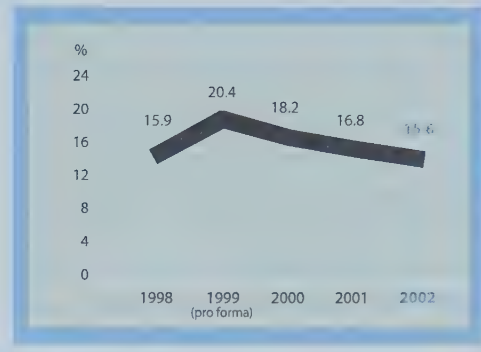
Another interesting figure for investors and financial analysts is the embedded value of new sales. This value measures the proportion in which new contracts sold during the year contribute to the increase in the embedded value. Hence, Industrial Alliance sales added $1.68 per share to the Company's embedded value in 2002. This value is equivalent to the previous year ($1.69) on a comparable basis and is one of the highest in the industry.

The Company's capitalization is a key element not only for the financial security of the shareholders, policyholders and creditors, but also to ensure its growth and obtain favourable credit ratings.

The Company's capitalization, which is made up of equity, the participating policyholders' account and subordinated debentures, was up 7% in 2002, reaching $1,183 million at year-end (Figure 9). This growth comes primarily from the net income generated during the year.

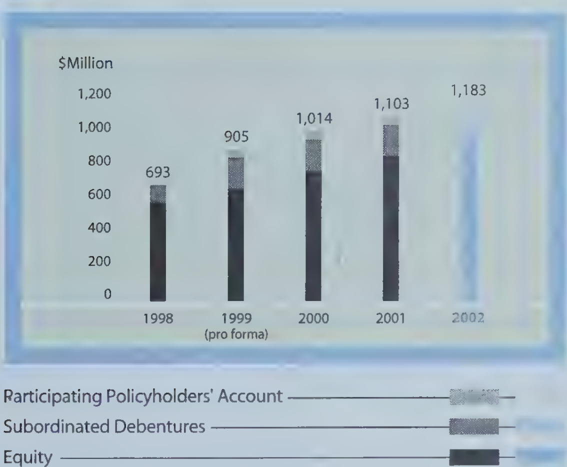
The number of outstanding common shares was 37.65 million as at December 31, 2002, the same number as at the end of the previous year.

10 **Debt Ratio**[1]

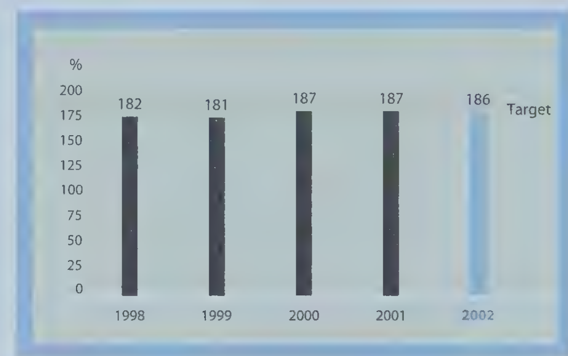


[1] Calculated by dividing the subordinated debentures by the capitalization

9 **Capitalization**



11 **Solvency Ratio**
Minimum Continuing Capital and Surplus Requirements (MCCSR)



Debt Ratio

The net income in 2002 and the absence of any new debt issue helped to reduce the Company's debt to capital ratio for the third straight year. This ratio, which is calculated by dividing the subordinated debentures by the Company's total capital, amounted to 15.6% as at December 31, 2002, down from 16.8% at the end of 2001 (Figure 10).

Solvency

The downward pressure of the stock markets in the first nine months of 2002, combined with the volatility associated with the formula used to calculate the segregated fund guarantee requirements, contributed to a certain weakening of the solvency ratio in the third quarter, causing it to dip to 175% as at September 30, 2002.

The solvency ratio regained its strength in the fourth quarter at the same time as the stock market was recovering, and by year-end was back up to 186%. This is similar to the 2001 year-end ratio of 187%, and far exceeds the regulatory requirements. Note that the Company's objective is to maintain a solvency ratio of between 175% and 200% (Figure 11).

Credit Ratings

In 2002, the three independent credit agencies that rate Industrial Alliance renewed all of their ratings for the Company. These ratings confirm the Company's financial solidity and its ability to meet its commitments to policyholders (Figure 12).

12 Credit Ratings

Rating Agency	Type of Evaluation	Rating	Outlook
Standard & Poor's	Counterparty Risks	A+/Stable/—	Stable
	Financial Solidity	A+	Stable
	Subordinated Debentures	A-	Stable
	Preferred Shares		
	Canadian Scale	P-2 (High)	Stable
	Global Scale	BBB+	Stable
A.M. Best	Financial Solidity	A (Excellent)	—
	Subordinated Debentures	a-	—
	Preferred Shares	bbb+	—
DBRS	Financial Solidity	IC-2	Stable
	Subordinated Debentures	A	Stable
	Preferred Shares	Pfd-2 (High)n	Stable

A Prudent and Well-Managed Segregated Funds Guarantee

Segregated funds have numerous advantages over mutual funds. Among these advantages, the one that investors appreciate the most is the capital guarantee offered in the event of death and at maturity.

The three life insurance companies in the Industrial Alliance Group began to market segregated funds to individuals at the beginning of the 90s. Several generations of guarantees have already been offered to investors. Today, however, all three companies offer the same guarantee. While being attractive for investors, this guarantee was designed so that the Group companies could absorb the financial impact related to stock market risk.

Characteristics of the Segregated Funds Guarantee

The most recent version of the segregated funds guarantee offered by Industrial Alliance Group companies contains the following characteristics.

- A minimum term to maturity of 10 years, where investors must choose a maturity date between their 60th and 69th birthday. This feature has two major advantages. First, it avoids any concentration of risk during a single year, since the maturity is spread out over time according to the age of investors. Second, it allows the Group companies to have an average term to maturity of more than 10 years. It is estimated that the average term to maturity of the in-force guarantees is 11 years and that the average term to maturity of new issued contracts is more than 15 years.
- A 100% capital guarantee for regular funds and 75% for specialized funds.
- A guarantee by "contract" (and not by "fund"). A guarantee by "contract" is equal to a guarantee by "family" of funds, since a contract generally contains more than one fund. This type of guarantee is generally less volatile since, for a given portfolio, a poor performance by one fund can be offset by a good performance by another fund. Moreover, most of the Group's fund managers favour a "value" type management approach and our clientele has more of a cautious investor profile than an aggressive investor profile. Hence, as at December 31, 2002, about two-thirds of segregated fund contract assets were invested in diversified funds, and only 1% in superior growth funds, which are riskier.

Segregated Fund Guarantee Reserves

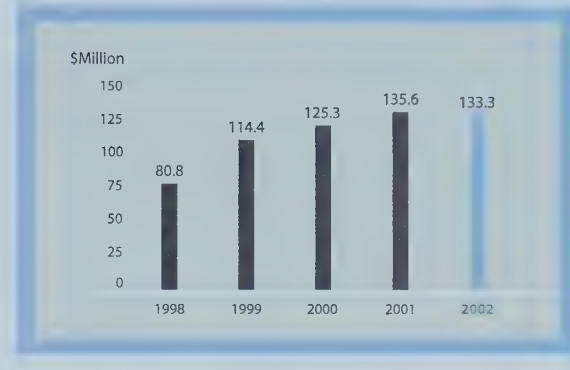
The reserves maintained by the Company to cover the risk of loss associated with the guarantee are calculated very prudently. The reserve calculation model used by the Company maintains a "CTE 80" level. This means that of all the simulated performance scenarios, the reserve is calculated using the average results of the 20% least favourable scenarios. This approach complies in all respects with the professional standards for reserve evaluations issued by the Canadian Institute of Actuaries.

As at December 31, 2002, for total commitments of $2,795 million, the value of the net amounts at risk, i.e., the difference between the market value and the guaranteed value of segregated funds, was $228 million. The reserves held for these guarantees totalled $21 million, or 9% of the net amounts at risk.

The Individual Insurance and Annuities sectors ended the year on an excellent note. In spite of the poor stock market environment, the Company fared remarkably well, ranking second in Canada in individual insurance sales and greatly surpassing industry levels in the sale of individual annuities. These results were made possible through numerous innovative enhancements to our line of products and services, and through the relentless efforts of our agents and employees.

These results are also attributable to our business strategy, which is founded on a number of key competitive advantages, including the size and multiplicity of our distribution networks, our ability to effectively manage and grow these networks, our strong regional brand names, the diversity of our products and services, the returns generated by our various investment funds, and perhaps above all else, our ability to innovate in an increasingly concentrated and competitive market.

13 **Sales[1, 2]**
Individual Insurance



[1] First-year annualized premiums
[2] Excluding the Canadian Medical Association for 2000, 2001 and 2002

INDIVIDUAL Insurance

Business Growth

Sales in the Individual Insurance sector amounted to $133.3 million in 2002, down 2% from the previous year, excluding the Canadian Medical Association business (Figure 13). This change is primarily due to the decline of the stock markets, which served to undermine investor confidence, particularly among purchasers of universal life policies. These clients reacted by considerably reducing the amounts invested in the savings portion of these products, with the reductions being especially significant among high-income clients, a market served by National Life, an Industrial Alliance Group company.

Nevertheless, this decrease in sales is comparable to that of the Canadian industry as a whole, which reported a 3% drop in sales for the same period.

Seen over a longer period, Company sales have grown at a compound annual rate of 15.5% over the last five years, three times the industry rate.

"The Industrial Alliance Group ranked second in Canada in the Individual Insurance sector in 2002, with 12.9% of the market."

14 **Premiums[1]**
Individual Insurance

[1] Excluding the Canadian Medical Association for 2000, 2001 and 2002

According to industry data, the Industrial Alliance Group ranked second in Canada in individual insurance sales at the end of 2002. The Group's market share remains high at 12.9%, an indication of our strong presence in the Canadian market.

Although sales dropped slightly over the year, the number of individual insurance policies sold continued to rise, growing by 9% over the previous year. This increase is a good indication of the strong activity in the field.

Premium income also rose in 2002, totalling $663.9 million at the end of the year. This represents a 3% increase over the previous year, excluding the Canadian Medical Association business (Figure 14). Premium income includes premiums paid by insureds for new contracts as well as renewal premiums required to maintain coverage under in-force contracts.

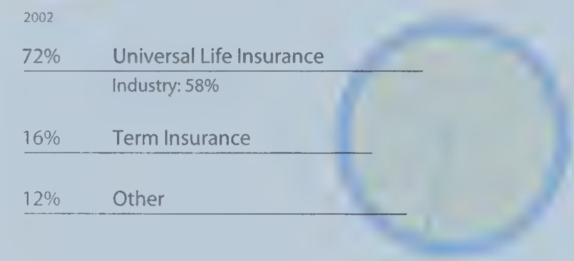
Primary Achievements

Achievements were abundant in 2002. On the product front, all the companies in the Group made enhancements to their top-selling products in order to maintain their competitive position in the market, preserve their client appeal and meet well-defined profitability criteria.

In this regard, a number of enhancements were made to the universal life policy offered by Industrial Alliance and Industrial Alliance *Pacific*, including new investment options, a new interest bonus and a new death benefit.

The Industrial Alliance Group is ranked number one in Canada in the sale of universal life products. In 2002, universal policy sales accounted for 72% of all individual insurance sales made by the Group, compared to 58% for the industry as a whole (Figure 15). Universal life insurance is used not only to provide insurance coverage, but also as a financial, tax and estate planning tool.

15 **Sales by Product**
Individual Insurance



Furthermore, in order to fully capitalize on the growth currently experienced in the Canadian critical illness insurance market, Industrial Alliance and Industrial Alliance *Pacific* made a number of enhancements to their critical illness product. The new version of the product offers an earlier refund of premiums, a new life coverage that includes a premium refund option starting in the tenth policy year, and a medical assistance service for certain categories of insureds. National Life introduced its own critical illness product in the fall of 2002.

On the technology front, National Life introduced a new Internet service in 2002 called *SaveTax*. This service enables brokers to do life insurance quotations on-line through a customized web page.

Major strides were also made with regard to decentralizing certain administrative functions by giving agents access to an electronic life insurance application that enables them to input the information while they are with the client, and send the application electronically to head office. This method offers some major benefits in terms of flexibility, efficiency and processing times.

Development Strategy

The Individual Insurance and Annuities sectors offer a comprehensive range of insurance, savings and retirement products. The Group's three life insurance companies distribute these products throughout Canada under their own brand name, but in different geographic regions. Industrial Alliance covers primarily the central and eastern parts of the country, while Industrial Alliance *Pacific* focuses more on western Canada. Both of these companies distribute the same line of products. National Life, on the other hand, has its head office in Toronto, and offers its own line of products Canada-wide, primarily targeting high-income clientele.

The Group distributes its individual insurance and annuities products through multiple distribution networks, which constitute the basis for its growth and success. These networks include the Career network, the insurance brokers network (also called the General Agents network), the securities brokers network (also called the National Accounts network), and the alternative distribution network

16 **Sales by Network**
Individual Insurance

17 **Sales by Network**
Individual Annuities

(which primarily includes financial institutions). The Career network and the insurance brokers network generate 86% of individual insurance sales, and all individual annuities sales for the Company (Figures 16 and 17).

In terms of business growth, our biggest challenge continues to be improving our market share in a market where both concentration and competition are continually growing.

To meet this challenge, we have adopted a strategy that revolves around achieving three major goals:

- Remain at the forefront in developing innovative, competitive products. Some action plans have already been developed in this regard for each product category, namely universal life insurance, permanent life insurance, term life insurance, and critical illness insurance.
- Grow our distribution networks by setting up recruiting and production plans. In particular, we plan to continue increasing the number of Career network agents by 3% each year, recruit new insurance brokers in all parts of the country, and ensure a more consistent presence among securities brokers. At the end of 2002, the Career network was made up of 1,310 agents, 40 more than at the end of 2001, or an increase of 3%.
- Improve marketing and administrative support for agents so as to optimize operating costs and service quality. In particular, we plan to continue with our plan to decentralize activities to the agents. This is a four-year plan that was put in place three years ago.

Individual Insurance

Competitive Advantages

- Size and multiplicity of distribution networks
- Ability to effectively manage and grow the various distribution networks
- Strong regional brand names
- Diversified product line
- Innovation capacity

Strategy

- Remain at the forefront in developing innovative, competitive products
- Grow our distribution networks by setting up recruiting and production plans
- Improve marketing and administrative support for agents so as to optimize operating costs and service quality

INDIVIDUAL Annuities

Business Growth

Premium income in the Individual Annuities sector totalled $590.7 million in 2002, up by 12% over the previous year (Figure 18). Thanks to strong sales, particularly at year-end, the Company was able to record much higher growth than the industry overall. In comparison, the Investment Funds Institute of Canada reported that the Canadian mutual funds market recorded a 10% drop in gross sales in 2002.

18 **Sales[1]**
Individual Annuities

[1] Measured according to premiums

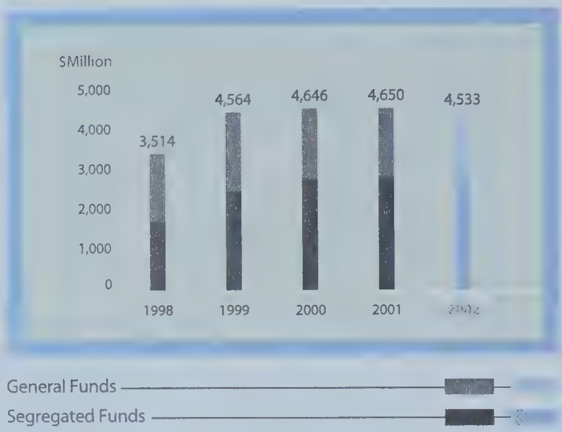
This sector's good performance is primarily due to the success of the 2002 RRSP campaign, the ongoing popularity of our new Principal Guaranteed with an Alternative Investment product, good returns on most of our segregated funds, and the popularity of the capital guarantee at maturity and death associated with these same segregated funds—a welcome feature for investors during periods of stock market fluctuations.

Despite the strong volatility of the financial markets throughout the year, net segregated fund premiums (fund inflows minus fund outflows) remained positive in 2002 at $152.1 million. Although lower than the previous year, these results enabled the Industrial Alliance Group to rank third in Canada in net segregated fund sales (one ranking better than the previous year), with 14.4% of the market.

The value of this sector's funds under management, which include segregated funds (offering variable income) and general funds (offering guaranteed interest rates), totalled $4,533 million as at December 31, 2002, 3% lower than at December 31, 2001 (Figure 19). This drop is primarily due to the poor performance of the stock markets in 2002, which posted negative returns. Once again, the Company performed

better than the segregated fund and mutual fund industries as a whole, which saw the value of their funds under management drop by 9% and 8% respectively in 2002.

19 **Funds Under Management**
Individual Annuities



Primary Achievements

In terms of achievements, the Company pursued the implementation of its development strategy in the wealth management sector.

In this regard, the Company made its debut in the securities brokerage industry by creating a new subsidiary, Industrial Alliance Securities, which now combines the operations of the three securities brokerage firms acquired during the year: ISL-Lafferty Securities Inc., BNP (Canada) Securities Inc. and Leduc & Associates Securities (Canada) Ltd. As at December 31, 2002, Industrial Alliance Securities had $313 million in assets under administration.

The Company also continued its development efforts in the area of mutual fund distribution by acquiring a 25% share in FundEX Investments Inc., a mutual fund dealer. Industrial Alliance already owns a mutual fund dealer subsidiary, Investia Financial Services, which had $437 million in assets at the end of 2002.

These acquisitions are part of a growth strategy designed to further expand the Company's distribution capacity in all areas of financial services, and to provide agents with a comprehensive line of financial products and services.

"The foundation for the Company's success rests on the size and multiplicity of its distribution networks."

The Company introduced a number of new products in 2002, the most significant being a new category of funds known as Focus funds. There are five of these funds, made up of seven underlying funds among which the assets are allocated based on each investor's profile. The main feature of the Focus funds, however, is the fund managers' automatic monthly rebalancing of each fund in order to ensure that the investor's initial investment objectives continue to be met at all times. Focus funds also have the same capital guarantee at maturity and death as the Company's segregated funds.

Individual Insurance and Annuities

Products and Services

Insurance Products
- Universal, permanent and term life insurance
- Health and disability insurance
- Critical illness insurance
- Mortgage insurance

Savings Products
- Registered Retirement Savings Plans (RRSP)
- Non-Registered Retirement Savings Plans (RSP)
- Guaranteed Investment Certificates (GIC)
- Principal Guaranteed with an Alternative Investment (PGA) (index GIC)
- Segregated funds
- Mutual funds (externally managed)
- Registered Education Savings Plans (RESP)
- Locked-In Retirement Accounts (LIRA)

Annuity Products
- Registered Retirement Income Funds (RRIF)
- Life Income Funds (LIF)
- Life and fixed-term annuities

Clientele

- Industrial Alliance and Industrial Alliance *Pacific* target the middle-income families market
- National Life primarily caters to high-income clients

Distribution Networks

- Career agents
- Insurance brokers (General Agents network)
- Securities brokers (National Accounts network)
- Alternative distribution network

The Company also launched a new investment fund, called the Principal Guaranteed with an Alternative Investment (PGA), at the beginning of 2002. The PGA offers a 100% capital guarantee for a five-year term, and is distinguished by its innovative hedge funds management strategy. The overwhelming popularity of the PGA prompted the Company to renew issues of this product on an ongoing basis throughout the year. The product's popularity may have something to do with the fact that one third of all new premiums received in 2002 were invested in guaranteed funds, a situation that had not occurred for several years.

On the technology front, a variety of tools were developed in an ongoing effort to provide top-notch customer service. One such tool was a sophisticated asset allocation system that enables agents to put together the optimal investment portfolio based on each client's investor profile.

We also launched a new, customized, secure-access Internet site for savings and retirement clients. This site gives clients round-the-clock access to any information they might need regarding their contracts.

Development Strategy

In terms of business growth, the strategy of the Individual Annuities sector is closely connected to that of the Individual Insurance sector, in particular its Career and insurance brokers networks, which the sector plans to leverage.

More specifically, the Individual Annuities sector plans to vigorously develop the wealth management market. Its strategy is based on the following three objectives:

- Accelerate the development of Investia and Industrial Alliance Securities through both internal growth and acquisitions.
- Promote our insurance and segregated fund products to mutual fund dealers and securities brokers. This involves capitalizing on the synergy between our various distribution networks.
- Develop innovative products adapted to the current stock market environment. In particular, we plan to relaunch our life annuity product, which had lost its appeal for investors over the past ten years due to low interest rates and strong stock market performances in the 1990s. We feel that the current economic and demographic context is conducive to a revival of products that offer a guaranteed level of income.

Individual Annuities

Competitive Advantages

Diversified range of financial products and services
High investment fund returns

Strategy

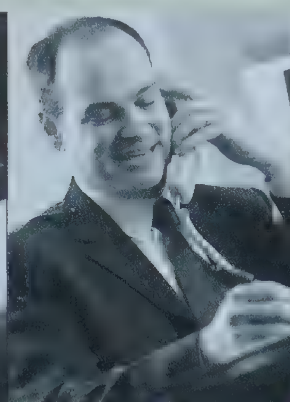
Leverage the strength of the Individual Insurance distribution network
Accelerate the development of Investia and Industrial Alliance Securities
Promote our insurance products and segregated funds to mutual fund dealers and securities brokers
Develop new products adapted to the current stock market environment

Individual Insurance and Annuities

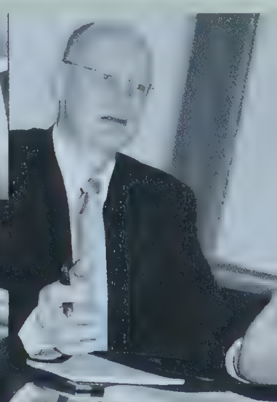
A dedicated team of professionals capable of offering a complete range of insurance products and financial services.

Paul R. Grimes
Vice-President, Sales, Ontario
Toronto

Marie-Chantal Viau
Coordinator, Marketing
Individual Annuities
Quebec City



Louis H. DeConinck
National Director, Development
Investia Financial Services
Quebec City



Gerald Bouwers
Vice-President and
General Manager, Sales, Canada
Vancouver

EMPLOYEE
Plans

In the Group Insurance Employee Plans sector, 2002 was a year of increased profitability and record sales. This success is largely the result of a development plan implemented a few years ago which aims to make the Industrial Alliance Group a national organization.

Review of Environment

The debate over the public health care system has aroused a great deal of interest over the past year. Rising medical expenses are putting increasing pressure on the various health care plans, both in the private and public sectors. A number of studies have been conducted in this regard, including a study by the commission led by Senator John Kirby, and one by the federal Commission on the Future of Health Care in Canada headed up by Roy Romanow.

These studies indicated a consensus regarding the need to reinvest in the current public health system and set up funding for new programs in the areas of home care, "catastrophic" drug insurance and primary health care. Since private group insurance plans are designed to be complementary to public plans, we are closely monitoring how the situation develops so we can be aware of any potential opportunities in this regard.

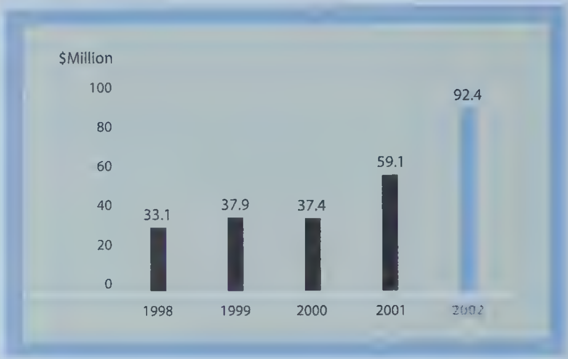
The industry also continued its move towards consolidation, with Sun Life acquiring Clarica in 2002, and Great-West submitting an offer to purchase Canada Life in early 2003. This kind of consolidation serves to generate new business opportunities for Industrial Alliance, making us an even more credible alternative for intermediaries and policyholders Canada-wide.

Business Growth

Employee plan sales reached a record $92.4 million in 2002, up 56% from the previous year (Figure 20). This increase is largely due to Bombardier's decision to entrust the management of the group insurance plans for all its Canadian divisions (Quebec, Ontario and British Columbia) to the Industrial Alliance Group. Our ability to manage large national plans was a key success factor in obtaining this contract. Thanks to this year's sales figures, we ranked fifth in Canada in terms of new sales in the employee plans market.

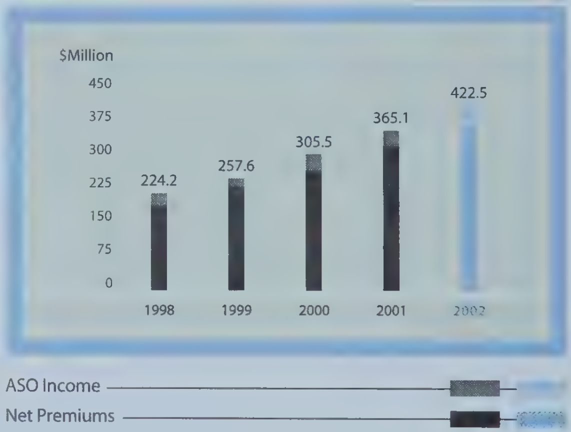
Premium income surpassed the $400 million mark, totalling $422.5 million in 2002, including premiums associated with administrative services only (ASO) contracts. This represents a 16% increase over 2001 (Figure 21). This growth is attributable to strong sales, good business persistency and the impact of the pricing adjustment program applied to contract renewals over the past few years.

20 **Sales**[1]
Group Insurance
Employee Plans



[1] First-year annualized premiums

21 **Net Premiums and ASO Income**
Group Insurance
Employee Plans



Primary Achievements

In 2002, we made new strides in our national consolidation strategy with the conversion of National Life business to the TANGO system. This conversion enables us to manage our client base from across Canada using a single, flexible, state-of-the-art platform.

The implementation of TANGO also enabled us to design and implement our transactional Internet site, which meets the needs of plan members and administrators. This user-friendly site gives plan members a detailed description of their coverage and access to information about their claims, and enables plan administrators to send us their employee movement reports electronically and consult their most recent statements.

Members and administrators have been using this site for almost a year now, and their feedback has been very positive. New functions will be added in 2003 that will allow administrators to consult their contracts and the various management reports, as well as calculate the contributions payable by their members. These new functions will also give members more information about their coverage.

We also made new reports available to employers regarding claims experience for disability income insurance. These reports provide information about incidence rates according to age group, cause and employee category/account.

These initiatives go hand in hand with our disability management program. During the initial weeks of disability, this program identifies people who are likely to benefit from this service and helps them accelerate their return to work. This service is highly valued by our clients, and has already produced positive results.

All of our accomplishments in 2002 are part of the ongoing process to improve the services we offer and enhance the quality of our customer service.

Distribution Networks

The Group distributes its employee plan products through three distribution networks. Two of these networks, the specialized brokers and actuarial consulting firms, cover the entire country. The third network is made up of Industrial Alliance representatives (Career and brokers), primarily in Quebec.

"Record sales in 2002 place us fifth in Canada in terms of new employee plan sales."

Industrial Alliance also has a group insurance sales support team that works with the various networks to promote products and services and provide assistance and technical support during the sales and client service process. This sales team serves the Canadian market through bases in six cities: Halifax, Quebec City, Montreal, Toronto, Calgary and Vancouver.

We have started a cross-Canada tour of our networks to present our distinctive services, which primarily include the national scope of the Industrial Alliance Group, Web@dmin, proactive disability management, integrated management of health spending accounts, and our involvement in Zurich's multinational pooling for employers that are part of an international organization. A number of meetings have already taken place throughout Canada.

Development Strategy

The Industrial Alliance Group offers life, health and disability income insurance products to groups of employees. The Group is particularly active in the medium-sized business market (50 to 1,000 employees) and manages the plans of several large companies. Its products are available on an insured or administrative services only (ASO) basis.

The Group's three companies distribute its products throughout Canada. Industrial Alliance distributes these products in Quebec and the Atlantic provinces, while National Life serves Ontario and markets products in western Canada under the name Industrial Alliance *Pacific*.

The Group Insurance sector insures approximately 2,300 groups made up of some 300,000 members.

Group Insurance
Employee Plans

Products and Services

- Life, accident, accidental death and dismemberment insurance
- Health insurance (including insurance for medical expenses)
- Dental care insurance
- Short- and long-term disability income insurance
- Medical assistance outside of Canada
- Critical illness and home care insurance
- Health spending accounts
- Employee and employer support programs:
  - Employee assistance program (EAP)
  - Disability management
  - Drug payment card
  - Electronic processing of dental health insurance claims
- Web@dmin, transaction driven site for plan administrators and members
- Solution Plus, small business insurance
- Multinational pooling

Clientele

- Employees of small- and medium-sized businesses
- Employees of large businesses
- Members of unions
- Members of associations

Distribution Networks

- Actuarial consulting firms
- Specialized brokers
- Career Agent and General Agent networks

To stand out from the competition, we focus primarily on state-of-the-art technology and providing above-average service at competitive prices.

With respect to business growth, our strategy is to increase our market share in the medium-sized business market made up of organizations with 50 to 1,000 employees. This market offers the potential of greater profitability margins. We will also remain active in the business market of 10 to 50 employees, as well as in the large business market. In 2003, we will focus in particular on medium-sized and large Ontario businesses.

We are maintaining our distribution strategy with selected intermediaries with whom we have regular contact, with the goal of becoming the insurer of choice for a growing number of distributors. We want to offer these intermediaries value-added service, particularly with respect to access to the financial information regarding their plans.

We also want to promote our ability to provide nation-wide service in an effort to accelerate business development outside of Quebec. Our consolidation of the activities of the Group's three companies is in keeping with this objective. Our goal is to be recognized in the Group Insurance sector as a national insurer.

In terms of profitability, our success relies on controlling operating expenses and carrying out a strict follow-up of loss ratios for each benefit and each market segment. In this respect, we will continue to propose practical solutions to our clients and help them manage their plans through the use of technological tools, particularly with regard to plan administration and disability management.

Group Insurance
Employee plans

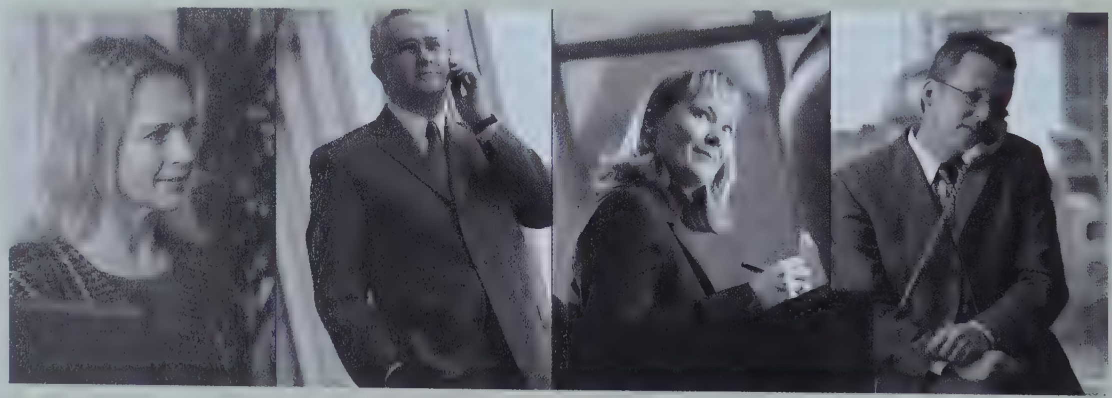
Competitive Advantages

- State-of-the-art technology
- Above-average service at competitive prices

Strategy

- Increase our market share in our target market (groups of 50 to 1,000 lives)
- Become the insurer of choice for a growing number of distributors
- Promote our ability to provide service nation-wide
- Accelerate business development, particularly outside of Quebec

Group Insurance



Elizabeth Kennedy
Senior Group Service Specialist
Toronto

Yves Daigneault
Group Insurance Advisor
Montreal

Andrée-Anne Bourgeois
Coordinator, Product Development and Marketing
Montreal

Neil Donald
National Director
Group Client Services
Toronto

A dynamic team that can provide local and personalized group services across the country.

GROUP CREDITOR
Insurance

The Group Creditor Insurance sector had an excellent year in 2002. Record results were achieved in both sales and profitability levels.

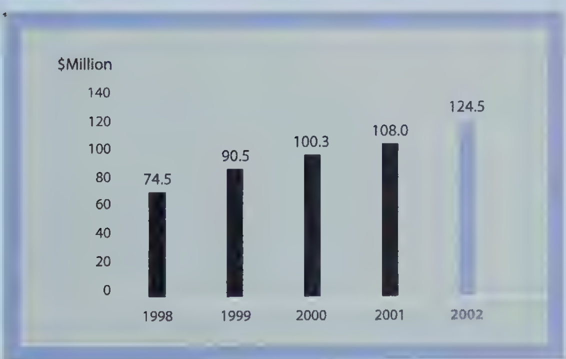
The Group Creditor Insurance sector markets creditor insurance (life and disability) to automobile and other dealers through a division of Industrial Alliance *Pacific*. These products are offered through a captive and direct distribution system across Canada. Through Industrial Alliance, this sector also offers some other creditor blocks of business that are marketed through financial institutions.

Business Growth

Sales reached $124.5 million in 2002, up by 15% over 2001 (Figure 22). This excellent achievement resulted from a number of factors:

- Organic growth due to the outstanding performance of the distribution system.
- The acquisition of Aegis (covering Saskatchewan and Manitoba) and Group GPS (covering Quebec) in the middle of 2001.
- A strong automotive sales environment in Canada in 2002.

22 **Sales[1]**
Group Creditor Insurance



[1] Single premiums

Primary Achievements

The main achievement of the Group Creditor Insurance sector in 2002 was to continue to achieve double-digit growth in a maturing market. This growth was accomplished by:

- Aggressive expansion in the Quebec market with the acquisition of Mecagroup (in 2000) and Group GPS (in 2001).
- The creation of leading-edge products in creditor insurance and other ancillary products that meet needs in the marketplace.
- The development of the the Saskatchewan and Manitoba markets following the acquisition of Aegis (2001).
- Strong cost management which has resulted in a steady improvement in unit costs, allowing the Company to provide very competitive pricing in the marketplace.

Another achievement is that with the expansion in Saskatchewan, Manitoba and Quebec, Industrial Alliance *Pacific* has built a truly national distribution system for this market over the last three years. Industrial Alliance *Pacific* is the only company in this market segment with a national distribution system that covers all regions in the country.

Development Strategy

The strategy to develop the Group Creditor Insurance division is made up of two key components.

- Expand the product portfolio to distribute other non-creditor products that can supplement profitability.
- Realize profit margins by improving the efficiency of our operations and reviewing the pricing of our products.

"We are the only company in the automotive group creditor market with a national distribution system that covers all regions in the country."

Group Creditor Insurance

Products and Services

- Health insurance
- Accident insurance
- Life insurance

Clientele

- Clients of automobile and RV dealers
- Clients of financial institutions

Distribution Networks

- Automobile and RV dealers, exclusive Canada-wide distribution network
- Financial institutions

The Company estimates that it has a over a third of the automotive group creditor market, ranking it first in Canada in this segment. To grow our position further will require the Group Creditor Insurance operation to compete aggressively in the marketplace and, at the same time, manage expenses effectively to maintain profitability. The main areas where the Group Creditor operation sees growth opportunities in the market are as follows:

- Improvements in market share positions in BC, Ontario and Quebec, which are relatively large but competitive markets in the country.
- Continued product development in the Group Creditor Insurance sector, possibly including an off-shore program, which continues to have interest in the marketplace.
- An ongoing effort to seek out acquisition opportunities in the marketplace.

The Company has been marketing non-creditor products for third party companies for a number of years as a way to earn additional margin in the form of commission income. Over the last few years, we have been extremely successful in growing our extended warranty sales to the point where they provided $17 million in premiums in 2002. There are many potential products that can be marketed to the automotive market including extended warranties, replacement warranties and anti-theft products. We feel that there is a significant opportunity for growth in the sale of non-creditor products and we intend to pursue this aggressively in the future.

Group Creditor Insurance
Automobile Dealers Market

Competitive Advantages

The only company with a captive and direct distribution system that covers all regions in the country

First in Canada in this sector

Strategy

Expand the product portfolio to distribute other non-creditor products that can supplement profitability

Realize profit margins by improving the efficiency of our operations and reviewing the pricing of our products

SPECIAL

Markets Group (SMG)

The Special Markets Group (SMG) sector in Group Insurance also had a strong year in 2002, both in terms of business growth and profitability.

SMG is a division of Industrial Alliance *Pacific* that specializes in certain niche insurance markets and was acquired by Industrial Alliance as part of the Seaboard Life acquisition in 1999. The main product areas it specializes in are:

- Group accidental death and dismemberment (AD&D) insurance
- Student accident insurance
- Term life insurance marketed to alumni and other affinity groups
- Travel medical and health insurance

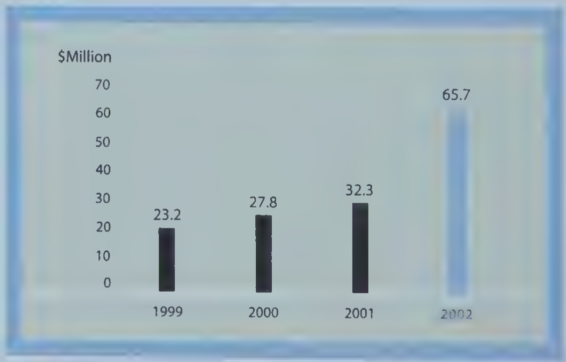
SMG distributes its products from four regional offices with dedicated sales staff in each office. The four offices are located in Vancouver, Calgary, Toronto and Montreal. The Montreal office opened in early 2003.

Business Growth

SMG's total premium reached $65.7 million in 2002, which is more than double the amount of 2001 (Figure 23). Although there were several favourable factors in 2002, this significant level of growth was primarily the result of the following factors:

- Strong organic growth due to the outstanding performance of our regional offices.
- An agreement with an Ontario-based agency to underwrite health insurance for students at several Ontario universities.
- An agreement in early 2002 to underwrite the travel insurance business of a major travel insurance distributor in BC.

23 **Sales**[1]
Group Insurance
Special Markets Group (SMG)



[1] Net premiums

Group Insurance
Special Markets Group (SMG)

Products and Services

- Accidental death and dismemberment insurance (AD&D)
- Student accident insurance
- Term life insurance marketed to alumni and other affinity groups
- Travel medical and health insurance

Clientele

- Employers
- Affinity groups
- Students and alumni

Distribution Network

- Exclusive Canada-wide distribution network with offices in Vancouver, Calgary, Toronto and Montreal

Primary Achievements

Undoubtedly, the main achievement for SMG in 2002 is the doubling of its revenues. This level of revenue positions the division as one of the strongest players in the "special risk" marketplace in Canada. It is our ambition to utilize our current position to become a market leader in this marketplace.

Another achievement is the expansion of our operations into Quebec with the opening of an office in Montreal. We expect that the combination of SMG's "special risk" expertise and Industrial Alliance's strong brand identity in Quebec will result in our being able to attract business in this market segment in Quebec.

"Undoubtedly, the main achievement for SMG in 2002 is the doubling of its revenues."

Development Strategy

SMG has two main strategies with respect to the future development of this division.

1. Geographic expansion in Quebec and into the Atlantic provinces: there are opportunities to grow the business by geographic expansion in two regions. The first is expansion in Quebec which began in early 2003. The second is to expand into the Atlantic provinces. SMG plans to enter the Atlantic provinces in a meaningful way in the next 12 to 24 months.
2. Grow the core accidental death and dismemberment insurance (AD&D) business: SMG's core business is AD&D insurance and the operation is in the top 3 in terms of market share for this product in Canada. Many of SMG's competitors in the "special risk" marketplace are international P&C companies. We believe that some of these companies will exit certain market segments, leading to new business opportunities, which SMG is well positioned to take advantage of.

Group Insurance
Special Markets Group (SMG)

Competitive Advantages

- Specialist in the accidental death and dismemberment market
- Direct and exclusive distribution team

Strategy

- Expand our operations in Quebec and into the Atlantic provinces
- Grow the core accidental death and dismemberment insurance operations

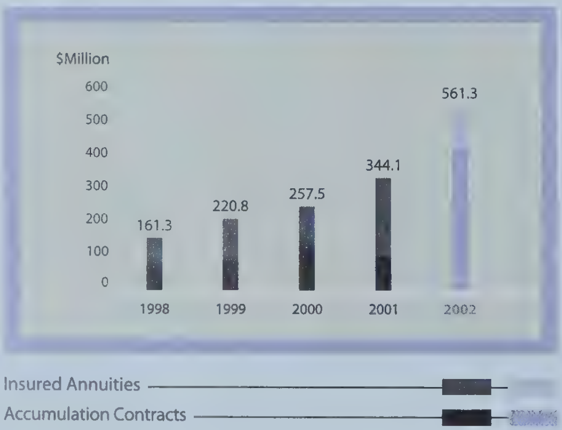
The highlight of 2002 in the Group Pensions sector was, without a doubt, the strengthening of our competitive position in the accumulation products market. Thanks to the signing of a strategic agreement with National Bank Trust, a record year for regular group sales, and the expansion of the Group Pensions business outside Quebec, the Company had one if its best years ever in this sector.

Business Growth

Industrial Alliance's Group Pensions sector is active in two market segments: accumulation products (where the Company offers a wide range of retirement savings and investment products) and insured annuities (where the Company pays out different types of annuities).

Taking into account both market segments, 2002 sales totalled $561.3 million, a 63% increase over 2001 (Figure 24). Average annual growth over the past five years amounted to 22%, excluding the business of the Canadian Medical Association. Sales are measured by totalling the gross premiums and deposits made through Industrial Alliance Trust, the trust subsidiary of Industrial Alliance.

24 **Sales**[1]
Group Pensions



[1] Gross premiums and deposits, excluding the Canadian Medical Association

Accumulation Products

As indicated earlier, accumulation products were the big performers with regard to sales in 2002, quadrupling the previous year's results to total $436.7 million. This remarkable achievement can be explained primarily by the transfer of an initial block of business worth $213.2 million from National Bank Trust following the signing of a strategic agreement with this company. A second block of business worth some $200 million was transferred on January 1, 2003, and will therefore be posted to the Company's books in 2003.

Just as important for long-term business growth, however, was our success in increasing the recurring premium volume by 77% in 2002 to a record $129.5 million. Recurring premiums include regular member contributions, that is, contributions that are collected year after year from in-force group clients. These premiums are what we call the "core" of our business, and are at the heart of our business strategy. Core growth in 2002 was generated by favourable results in the underwriting of new groups, as well as excellent persistency rates for in-force plans.

We are especially proud of the fact that approximately one third of the business volume written during the year came from outside Quebec. Over the past three years, our sales and marketing teams have made an extra effort to make market intermediaries and plan sponsors in Ontario, Quebec and the Atlantic provinces more familiar with our products and services.

" The highlight of 2002 in the Group Pensions sector was, without a doubt, the strengthening of our competitive position in the accumulation products market. "

Insured Annuities

In the insured annuities market, gross premiums amounted to $124.6 million in 2002, down 48% from the previous year's results.

Activity in this market was somewhat subdued in 2002, with very few large group contracts coming available on the market. This was primarily due to the low interest rate environment, which prompted many plan holders to defer their purchasing decision. Surprisingly, however, it was also due to the strength of the economy. This is because insured annuities are generally more popular during periods of economic slowdown, when there are more pension plan terminations due to company closures.

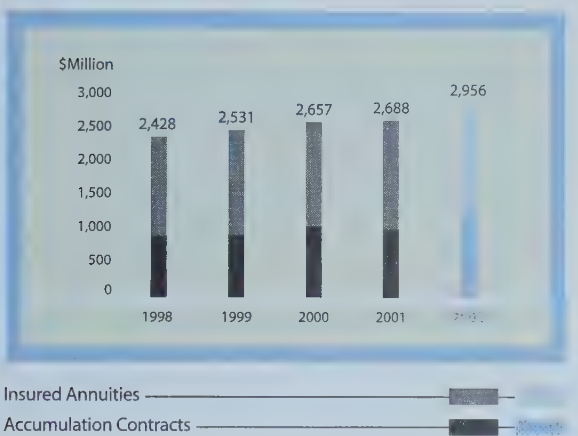
It is important to note, however, that the insured annuities market is subject to strong fluctuations from one year to the next due to the size of the plans available on the market, which are sometimes quite large. With this in mind, the results achieved in 2002 are in line with forecasted results.

Industrial Alliance is a leader in the insured annuities market in Canada. According to the most recent industry data, our 2002 sales place us among the top three service providers in the country, with an approximate market share of 20%.

Funds Under Management

Funds under management in the Group Pensions sector amounted to $3.0 billion as at December 31, 2002, up by 10% over December 31, 2001 (Figure 25).

25 **Funds Under Management[1]**
Group Pensions



[1] Excluding the Canadian Medical Association

This increase was primarily generated by the accumulation products sector, where funds grew by 24% throughout the year. This growth was the result of the three factors mentioned earlier, namely the transfer of a portfolio of over $200 million, the underwriting of record amounts of new business, and excellent persistency of in-force business, which reached its highest level in five years.

For insured annuities, funds under management reached $1.7 billion as at December 31, 2002, an increase of 1% over December 31, 2001. It should be noted that it is more difficult to record an increase in funds under management for this type of product given the low interest rate environment and the amount we are paying out in annuities.

Primary Achievements

A number of major achievements were made in 2002:

- Conversion of the largest portfolio in our history. The flexibility of our administration systems combined with the efforts of the Group Pensions team enabled us to carry out this conversion without impacting day-to-day operations.
- Opening of sales offices outside Quebec. We now have offices in Ontario, Quebec and the Atlantic provinces. This completes Phase I of our national expansion program.
- Expansion of our line of investment funds. We added 12 new investment funds to our current line, bringing the number of funds available to our clients to over 60. Our family of funds now covers a full range of needs that can meet the expectations of plan sponsors.
- Improvements to the secure sites for plan members and sponsors, particularly with respect to member accounts and the tools offered to plan sponsors. These improvements are in keeping with our desire to continually offer state-of-the-art communication tools.

Development Strategy

The Group Pensions sector offers specialized products and services adapted to the needs of pension plan members. These products and services are divided into two main families, namely accumulation products and insured annuities. The Group Pensions sector has approximately 4,700 in-force contracts covering over 130,000 members.

Group Pensions

Products and Services

Retirement Savings Products
- Defined contribution plans
  - Registered pension plans (RPP)
  - Simplified pension plans (SPP)
  - Group Registered Retirement Savings Plans (RRSP)
  - Deferred profit sharing plans (DPSP)
- Defined benefit plans
  - Registered pension plans (RPP)
  - Individual pension plans (IPP)
- Supplemental Executive Retirement Plans (SERP)

Annuity Products
- Insured or guaranteed annuities
- Locked-In Retirement Accounts (LIRA)
- Registered Retirement Income Funds (RRIF)
- Life Income Funds (LIF)

Investment Vehicles
- Segregated funds
- Guaranteed Investment Certificates (GIC)
- Dynamic Asset Management

Interactive vocal response system and Internet access

Clientele

- Small- and medium-sized businesses

Distribution Networks

- Specialized brokers
- Actuarial consulting firms
- Career Agents and General Agents networks

Group Pensions

Competitive Advantages

- Diversified range of investment options
- Unique pool of investment managers
- Good quality/price ratio
- Solid nucleus of activity in Quebec
- Renowned expertise in the insured annuities market
- Stable, competent and experienced administrative units

Strategy

- Increase our distribution capacity and sales outside Quebec
- Be recognized as a dynamic service supplier that combines innovation, flexibility and client service

Accumulation Products

The accumulation products family is made up of retirement savings accumulation contracts. It includes full investment and administration services for defined contribution and defined benefit plans, group RRSPs and deferred profit-sharing plans. Clients who are members of these plans have access to a wide range of investment options, including guaranteed investment certificates and a family of over 60 segregated funds. These funds are managed by seasoned professionals both within and outside the Company.

These products are distributed through three distribution networks. The first consists of actuarial consulting firms; the second of specialized group insurance brokers interested in optimizing their business relations by offering retirement solutions to their clients; and the third is made up of brokers and career agents associated with Industrial Alliance. Different distribution strategies are favoured by each of the networks. These strategies allow for the products to be adapted to the knowledge and abilities of the companies and representatives in the various networks.

Our sales teams promote our products among the various networks, assist representatives with the sales process, and meet the needs of employers, plan sponsors and members. These teams primarily serve eastern and central Canada, with offices in Halifax, Quebec City, Montreal and Toronto.

The Company is recognized in the industry as a dynamic, flexible service provider that offers a wide range of innovative products and services, an excellent quality/price ratio, and a diversified line of strong performing investment funds. Our stable, competent and experienced administrative units add an undeniable element of security for our plan sponsors.

Our market share in Quebec exceeds 10%, and our primary strategy is to diversify the geographic distribution of our revenues. To achieve this goal, we initiated an expansion of our operations across Canada in 2002 by broadening the scope of our activities in Ontario and the Atlantic provinces. This is the first step in a national development plan that is part of our effort to promote our renowned expertise and personalized approach on a national level.

Insured Annuities

The family of insured annuities includes a selection of annuity contracts guaranteed by the Company, which is a Canadian leader in the marketing and sale of this type of product. The Company is recognized nation-wide for its expertise and the quality of service it provides to its clients and market intermediaries.

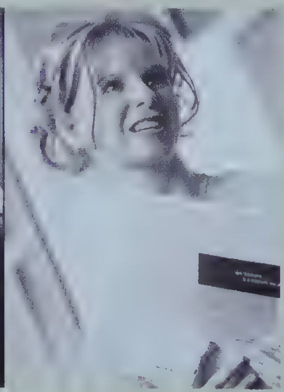
Over the next few years, we intend to maintain our recipe for success, which consists of high-quality service combined with a disciplined pricing approach that balances the need for both growth and profitability. We would also like to expand our pool of market intermediaries who provide us with new business.

Group Pensions

Teresa Perez
Senior Pension Coordinator
Toronto

Clark Steffy
Business Development Manager
Toronto

Maureen Ramsay Leduc
Supervisor, Customer Service
Quebec City



Josée Plante
Marketing Analyst
Quebec City

An attentive team that can present you with a wide choice of flexible and innovative group products.

Economic and Financial Environment

The year 2002 will probably be remembered as the year of financial scandals and disappointing stock market performances. Unfortunately, these events downplayed global economic recovery and in particular, the favourable performance of the Canadian economy, which recorded the most solid growth of all G-7 countries.

In both Canada and the U.S., consumers were once again largely responsible for economic growth over the past twelve months, continuing to take advantage of a favourable environment marked by particularly low interest rates and the Bush administration's flexible fiscal policy for U.S. taxpayers.

The role of the consumer was even more important in 2002 given the somewhat subdued behaviour of businesses, letting their inventories drop to record levels and investing only timidly in their production capacity. Many experts agree, however, that businesses will have to pick up where consumers left off to ensure solid economic growth in 2003.

It was a trying year on the stock markets for investors, with equity securities putting in a disappointing performance in 2002. All the major world stock markets ended the year in negative territory. Under normal circumstances, the stock market is a leading indicator of the state of the economy; thus, given the economic growth experienced in 2002, a stock market recovery would have been expected. This recovery never happened, however, primarily as a result of three events: the outbreak of financial scandals, which served to undermine investor confidence, the uncertainty associated with the U.S. fight against terrorism, and the threat of war against Iraq.

In spite of the markets picking up at the end of the year, investors witnessed an overall decline in the primary stock market indices for the third year in a row in the U.S. and a second straight year in Canada. The S&P 500 ended the year with a return of –22.9%, while the S&P/TSX Composite posted a return of –12.4%.

The economic and geopolitical environment, however, was very favourable for fixed-income securities for the third straight year in 2002. With many investors worried about the volatility of the stock markets, bonds were the perfect safe haven.

Bonds had already benefited from drops in U.S. Federal Reserve and Bank of Canada rates in 2001. In 2002, bond rates continued to drop despite the Bank of Canada's tightening of credit conditions in response to renewed economic strength and the threat of rising inflation. For all of 2002, the Scotia Capital Universe Bond Index posted a return of 8.7%, much higher than the returns of the various stock market indices. 2002 will go down in history as a remarkable year for bonds, which outperformed stocks for the longest consecutive period in decades.

Investment Activities

The Company's investment activities are divided into three sectors: General Fund and Segregated Fund Investments, Mortgage Loans and Real Estate Investments. Although the asset management activities for these sectors are carried out in Quebec City, Toronto and Vancouver, the coordination of these activities has been combined for the entire Industrial Alliance Group and are now under one administration. The purpose of this structure is to make maximum use of resources and have all Group companies benefit from the knowledge and expertise developed by each one.

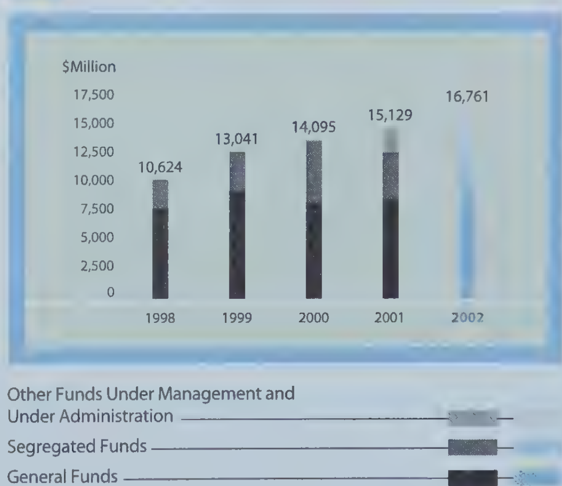
The objective of general fund investments is primarily to ensure capital protection while providing optimal returns, whereas the objective of segregated fund investments is to maximize total return for unit holders while controlling undue risk of capital loss, in accordance with the objectives of each fund.

In 1996, the Company began entrusting the management of certain segregated funds to external managers so that clients would have a wider choice of investment vehicles and management styles.

Assets Under Management and Under Administration

The Company's total assets under management and under administration amounted to $16.8 billion as at December 31, 2002 (Figure 26), an 11% increase over the previous year. This amount is composed of the general fund assets of the companies in the Group, representing $9.3 billion, as well as segregated fund assets totalling $4.2 billion, and other assets under management and under administration in the amount of $3.3 billion.

26 Assets Under Management and Under Administration

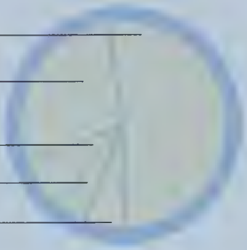


Asset-Liability Matching and Investment Program

Most of the Company's insurance and annuities investments are concentrated in fixed-income securities (bonds and mortgage loans in particular) (Figure 27). Assets matched to the Company's capital are essentially used to obtain long-term growth and to optimize after-tax returns.

27 **Distribution of Investments by Asset Category**
General Funds
As at December 31, 2002

52.5%	Bonds
28.3%	Mortgage Loans
8.1%	Stocks and Market Indices
4.9%	Real Estate
6.2%	Other



Although obtaining a steady improvement in returns is a day-to-day concern of the Group's portfolio managers, our general fund investment policies focus primarily on capital protection and the maintenance of strict matching between the asset and liability financial structures in order to guard against the risks associated with interest rate fluctuations.

As at December 31, 2002, the spread between the duration of Company assets and liabilities was 0.10 years, well within the ± 0.25-year tolerance level stipulated by our investment policies. This statistic excludes the very long-term commitments portion of the individual insurance and annuities products for which we favour an active management strategy aimed at maximizing the return of a high-quality investment portfolio.

The Company entered into swap agreements for which cash flows are calculated on a total notional amount of $688.9 million. These agreements are used for managing financial risks, in particular those associated with interest rate and market value fluctuations, and for investing a portion of the capital of the Group companies.

The current credit risk, which corresponds to the amounts payable to us by the various counterparties, was $7.4 million as at December 31, 2002 ($19.1 million in 2001). The future credit risk associated with these agreements, which represents the amount that the counterparties could eventually owe us according to various market scenarios, is $27.8 million as at the same date ($30.7 million in 2001). All counterparties with whom we have signed such agreements are first-rate financial institutions.

The Group's investments are well diversified among issuers and operating sectors, as well as geographically, according to the source of business by region (Figure 28), in accordance with sound asset management principles. During our annual review of the investment policies, we tightened our concentration limits by group of related issuers in order to further improve the diversification of our portfolios and reduce the credit risk.

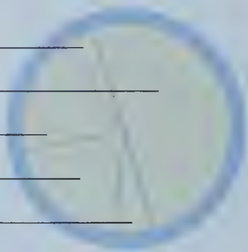
Quality of Investments

The quality of the Company's assets is excellent. Net impaired investments represented only 0.22% of all investments as at December 31, 2002 (0.28% in 2001) (Figure 29). This is the lowest rate in the past decade. Net impaired investments are composed of bonds and mortgage loans in arrears for three months or more, as well as restructured loans and other defaulted investment securities, taking into account any provisions set up in consideration of these assets. The Teleglobe investment is therefore not included under impaired investments since a full provision was made for this investment.

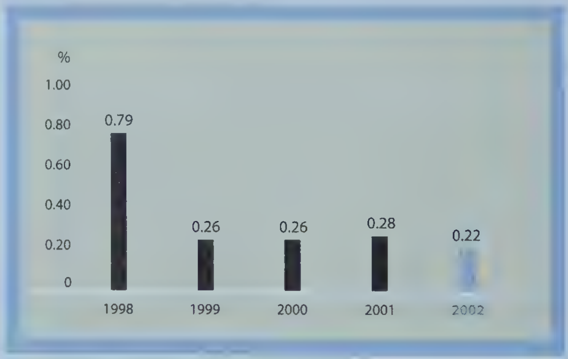
"The quality of our investments is excellent, with net impaired investments accounting for only 0.22% of the portfolio, the lowest rate in the past decade."

28 **Distribution of Investments by Region**
General Funds
As at December 31, 2002

5%	Atlantic Provinces
51%	Quebec
20%	Ontario
18%	Western Provinces
6%	Outside Canada



29 **Net Impaired Investments as a Percentage of Investments**

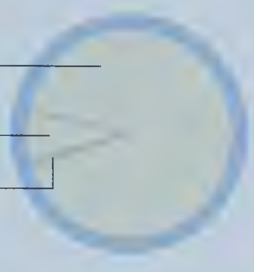


The bond portfolio continues to be of very good quality. In accordance with the rules defined in the investment policies, the Company invests in bonds that were investment grade at the time of acquisition. As at December 31, 2002, 92.2% of the bond portfolio was made up of securities rated A or higher (91.4% in 2001), and bonds rated BB or lower represented only 0.1% of the portfolio (Figure 30).

The quality of the mortgage loans portfolio is also good. The proportion of delinquent loans as at December 31, 2002 was 0.74% (0.48% in 2001), whereas the industry rate was 0.42% according to a survey by the Canadian Life and Health Insurance Association (Figure 31). This figure includes both insured and uninsured loans, with insured loans accounting for 49.0% of all delinquent loans.

30 **Distribution of the Bond Portfolio by Credit Rating**
As at December 31, 2002

92.2%	A or Higher
7.7%	BBB
0.1%	BB and Lower



Virtually all mortgage loans are secured by first mortgages. Furthermore, 45.3% of the portfolio is made up of insured loans (40.9% in 2001), and 70.9% of the loans are secured by single-family residential or multi-unit residential properties (Figure 32).

The vacancy rate of the Company's real estate portfolio was 7.9% as at December 31, 2002 (3.7% in 2001) and compares very favourably with that of commercial rental properties in large Canadian cities.

Investments in equity securities are used to match very long-term commitments, to cover the commitments on certain universal life policies, or to invest a portion of the Company's capital. The market value of the stocks and market indices portfolios was equal to 96.1% of their book value as at December 31, 2002 (98.2% in 2001).

Note that stock market fluctuations have very little direct impact on the Company's net income. In fact, 60% of the stocks and market indices portfolio, totalling $720.1 million, is composed of assets that are used for matching the Company's very long-term commitments and universal life insurance policies. Any fluctuation in the value of these assets has no impact on the Company's income. Furthermore, 26% of the portfolio is made up of preferred shares backing capital.

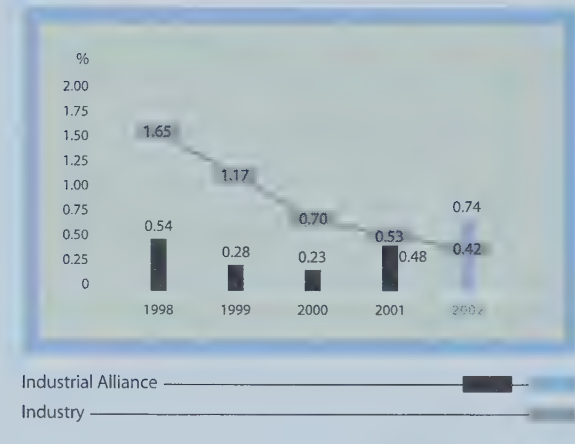
Investment Fund Performance

The Industrial Alliance Group offers a wide variety of investment funds designed for its individual and group clients (excluding independent retirement plans). In total, the Company's family of funds includes 107 different funds. Of this number, 40 belong to the retail sector's main family of funds, and 64 belong to the group sector's main family of funds.

In the retail sector, a new category of funds was added in 2002, called Focus funds. This category includes five new funds, each of which correspond to a certain investor profile. These funds have the special feature of combining several different investment approaches offered by different management firms, and offer automatic monthly rebalancing of the invested assets. This monthly rebalancing is unique on the market and enables clients to respect their initial investment objective.

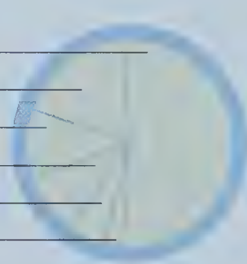
In the Group sector, we launched 12 new funds and joined forces with three new high-quality external fund managers.

31 **Delinquency Rate of the Mortgage Loans Portfolio**



32 **Distribution of the Mortgage Loans Portfolio by Type of Property**
As at December 31, 2002

52.5%	Multi-residential
18.4%	Single Family
10.8%	Retail
9.3%	Office
6.1%	Industrial
2.9%	Other



Overall, our family of funds offers the ability to invest in each of the major asset classes (Figure 33), along with good geographic diversification. In addition, our numerous alliances with external management firms (now totalling 19) enable our clients to benefit from the expertise and experience of our in-house managers as well as our reputable external managers with a variety of management styles.

33 **Distribution of Investment Funds by Fund Category**
As at December 31, 2002

42.9%	Diversified Funds
26.8%	Canadian Equity Funds
16.6%	Income Funds
7.6%	International Equity Funds
6.1%	U.S. Equity Funds

Our in-house managers are responsible for managing 34 funds, representing 68% of our total assets under management. In the course of their management activities, they conduct an in-depth analysis of the North American economic environment and the Canadian markets. Our external managers are responsible for managing a total of 73 funds.

The total net assets of the investment funds grew from $3,481 million as at December 31, 2001 to $3,588 million as at December 31, 2002, an increase of 3%. The stock market decline slowed down net asset growth in spite of positive net fund inflows during the year. The change in total net assets of the investment funds in 2002 is illustrated in Figure 34.

34 **Variation of Net Investment Fund Assets**

$Million

Balance as at December 31, 2001	3,481
Net Unit Issues	413
Operating Expenses	(86)
Net Investment Income	(220)
Balance as at December 31, 2002	**3,588**

Despite a difficult environment for the stock markets, the performance of the Industrial Alliance Group's family of funds was quite favourable in 2002, with 37 funds, representing 68% of the total net assets of the investment funds, generating an above-median return in 2002 (Figure 35). Of all the funds managed in-house, 84% of the net assets were above the median.

35 **Relative Performance of Investment Funds**
Gross One-Year Return
As at December 31, 2002

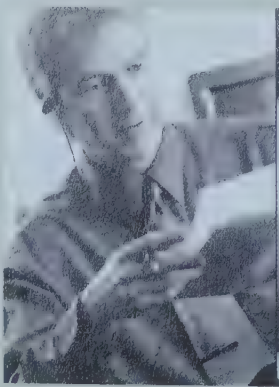
	Above-Median Yield	Below-Median Yield	Funds in Existence Less than 1 Year
Number of Funds	37	53	17
Assets ($Million)	2,376	1,086	27
As a % of Assets	68%	31%	1%

" Our team of in-house fund managers had another good year, with 84% of the assets of internally managed funds generating an above-median return."

Even when considered over longer periods, the performance of our funds is still exceptional. Over 70% of the assets in our funds recorded an above-median performance over a three-year, five-year and ten-year period.

The return on our investment funds and the detailed financial information associated with these funds are presented in the investment funds' annual financial reports prepared jointly by the three life and health insurance companies of the Industrial Alliance Group.

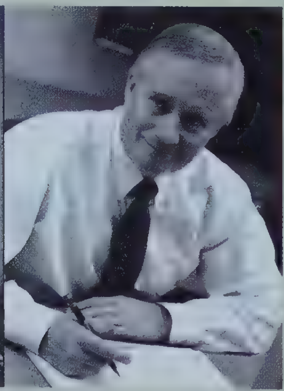
Investments



François Lalande
Senior Manager
Portfolio Management
Quebec City

Luc R. Fournier
Portfolio Manager
Canadian Equities
Quebec City

Nang Cheung
Director, Bond Portfolios and Segregated Funds
Toronto



Bob Farley
Portfolio Manager
Canadian Equities
Vancouver

An experienced team of dynamic fund managers focused on provid superior returns.

In the course of its operations, Industrial Alliance faces a variety of risks. In all cases, the Company applies a principle of prudence in its business decisions, seeking to obtain an appropriate balance between risk reduction, the protection of policyholders' interests, and the preservation and optimization of value for the shareholders.

As prescribed by the regulatory authorities, the Company has implemented a policies and procedures program pertaining to standards of sound business and financial practices. The principles of risk management are an integral and important part of this program, which has been approved by the Board of Directors.

Risk Management Principles and Responsibilities

Risk management primarily aims to identify all risks that the Company is exposed to in the course of its operations, and to understand all aspects of these risks.

The Board of Directors is responsible for making sure there are management systems in place for properly identifying and assessing the material risks to which the Company is exposed.

The managers of the Actuarial and Investment sectors have specific responsibilities with regard to insurance and investment risk management because of their role in product pricing, investments and asset/liability matching.

The Company's responsibility with respect to risk management includes developing, updating and enforcing risk management guidelines. These guidelines include the Company's position regarding the risks it may be exposed to, the scope and nature of the risks it is prepared to take, the establishment of risk tolerance limits, as well as the various risk control and monitoring programs that need to be implemented. Those responsible for risk management must also make sure that accurate and timely information that can help evaluate risk is available at all times.

The main risks to which the Company is exposed are divided into three categories:

- Insurance Risk
- Investment Risk
- Other Risks

A summary of these risks and the process for managing them is outlined below.

Insurance Risk

Insurance risk is subdivided into three categories: product design and pricing risk, underwriting and liability risk, and credit risk related to reinsurance.

Product Design and Pricing Risk — Product design and pricing risk is the risk that the established price is or becomes insufficient to ensure an adequate return for the shareholder as compared to the Company's profitability objectives. This risk may be due to an inadequate assessment of market needs, a poor estimate of the future experience of several factors, such as mortality, morbidity, lapse experience, future returns on investments, expenses and taxes, as well as the introduction of new products that could adversely impact the future behaviour of policyholders.

For certain types of contracts, all or part of this risk may be transferred to the policyholder through a dividends and returns policy, or through the fact that the Company can adjust the premiums or future profits if experience turns out to be different than expected. For other types of contracts, the Company assumes the entire risk.

The Company has adopted a product design and pricing policy that establishes standards and guidelines on pricing methods, formulation of assumptions, profitability objectives, analysis of the sensitivity of this profitability according to various scenarios, documentation, and the accountability of the various people involved.

The risk is primarily managed by regularly analyzing the pricing adequacy of Company products as compared to recent experience. The pricing assumptions are revised as needed and/or the various options offered by the reinsurance market are utilized.

Underwriting and Liability Risk — Underwriting and liability risk is the risk of financial loss resulting from the selection of risks to be insured, adjudication of claims and management of contract clauses. Unfavourable results in these areas can lead to deviations from the assumptions, particularly in terms of mortality, morbidity and lapse experience. The Company has adopted detailed standards in this regard, and ensures adherence to these standards, which are reviewed periodically.

In its standards of sound business and financial practices, the Company has established guidelines pertaining to underwriting and liability risk which have been approved by the Board of Directors, and which specify the Company's retention limits. These retention limits vary according to the type of protection and the characteristics of the insureds, and are revised regularly according to the Company's capacity to manage and absorb the financial impact associated with unfavourable experience regarding these risks. Once the retention limits have been reached, the Company turns to reinsurance to cover the excess risk. The selected reinsurers must meet minimum financial soundness criteria (see Credit Risk Related to Reinsurance, below). The Company also has a facultative reinsurance policy for substandard risks.

Catastrophe reinsurance is also used with external reinsurers to protect against the eventuality that four or more people are involved in the same event. Following the events of September 11, 2001, this coverage has become more expensive and the Company has made the changes it deems necessary in order to satisfy its coverage needs with respect to reinsurance costs, particularly when it comes to acts of terrorism.

Credit Risk Related to Reinsurance — Even though the Company relies on reinsurance to manage the underwriting and liability risk, reinsurance does not release the Company from its primary commitments to its policyholders. Therefore, the Company is exposed to the credit risk associated with the amounts ceded to reinsurers. The Company assesses the financial soundness of the reinsurers before signing any

reinsurance treaties and, if need be, protects itself using letters of credit and by depositing cash amounts in trust accounts.

Investment Risk

Investment risk is sub-divided into five categories: market risk, foreign currency risk, interest rate risk, credit risk and liquidity risk.

Market Risk — Market risk is the risk that investments will sustain losses or will not produce the expected returns. The Company has established investment policies that contain a variety of measures designed to limit the impact of market risk, primarily by establishing investment standards and limits. These standards and limits cover such matters as credit quality of issuers, concentration by issuer or group of issuers, geographic diversification and diversification by operating sector, liquidity of investments and matching of the assets to the liabilities.

The investment policies are reviewed annually and any modifications are submitted to the Board of Directors for approval. Policy management and compliance is monitored regularly and the results are reported to the Board of Directors Investment Committee at least quarterly.

Foreign Currency Risk — Foreign currency risk represents the risk that a company assumes from losses due to exposure to foreign currency fluctuations. The Company has adopted a policy to avoid exposing itself to foreign currency risk. To this end, liabilities must be matched with assets of the same currency and any exposure to the risk of foreign currency fluctuations must be covered.

Interest Rate Risk — Interest rate risk is the risk of loss due to changing interest rates. The Company manages this risk through an asset/liability matching policy which is updated periodically. The primary objective of this policy is to minimize the volatility of profit margins caused by fluctuations between the realized returns and those credited to existing contracts. To monitor matching, investments are segmented by matching blocks established based on the cash flow structure of the liabilities, with the blocks being grouped together by line of business. Asset/liability matching is a very elaborate process, and one that is strictly monitored.

The concept of duration is used to measure sensitivity to interest rate fluctuations. The duration corresponds to the weighted average maturity of the asset or liability cash flows. Hence, the longer the duration of an asset, the more its market value is impacted by interest rate fluctuations. By the same token, when the duration of the assets exceeds the duration of the liabilities, an increase in interest rates will result in a decrease in economic value. The difference between the duration of the assets and the duration of the liabilities is subject to limits defined in the asset/liability matching policy, and is strictly managed.

Moreover, the concept of duration puts forth the hypothesis that there is a linear relationship between interest rate fluctuation and the market value of assets/liabilities. Dispersion measures must be used in order to take into account the non-linear dimension of this relationship. In general, it is preferable that the dispersion of assets be greater than the dispersion of liabilities. As a result, the matching policy contains limits as to the minimal dispersion of assets.

Even if the duration of the assets is well matched to the duration of the liabilities, the Company may be exposed to reinvestment risk and market risk, to the extent that the maturity of the assets does not correspond to that of the liabilities. In order to control these risks, the Company has implemented a process within its matching policy whereby it must make sure that the asset cash flows tend to correspond to the liability cash flows, including those of the anticipated margins for each matching block.

The matching policy calls for the use of deterministic scenarios to evaluate the sensitivity of expected future margins to different interest rate fluctuations. The same policy also imposes limits as to the sensitivity level of the matching situation to more than 500 stochastic scenarios.

For the Company's annuity portfolios, which represent 48.4% of the general fund actuarial liabilities, the Company estimates that an immediate increase or decrease of 1% in the interest rates would have a negligible impact on the net earnings (less than $0.1 million). We can therefore conclude that, overall, the Company's annuity portfolios have a very high degree of immunity to interest rate variations.

Credit Risk — Credit risk is the risk that counterparties or debtors will not respect their obligations to the Company. The Company's investment policies aim to limit this risk by ensuring the sound diversification and relatively high quality of the counterparties or debtors, and through limited exposure to issuers. Among other things, these policies stipulate that the Company cannot acquire investments whose credit rating is lower than BBB low. They also impose limits by group of related issuers that depend on the credit quality of these issuers, by operating sector and by geographic region.

Liquidity Risk — Liquidity risk is the risk that there will be insufficient funds available to honour all Company commitments as they fall due. This risk is managed by closely matching assets with liabilities. In addition to having a very low mismatch tolerance, the Company manages this risk through strict management of its cash resources. Moreover, to maintain an appropriate level of liquidity, the Company makes sure it holds a good proportion of its assets in marketable investments. As a management tool, the Company produces different reports designed to demonstrate the level of liquidity based on different scenarios.

Other Risks

Other risks include the following four risks: risk of a stock market downturn, insolvency risk, legal and regulatory risk and operational risk.

Risk of a Stock Market Downturn — The risk of a stock market downturn represents the risk of financial loss resulting from a downturn in the stock markets. A stock market downturn can impact the management fees collected on segregated funds and universal policy index accounts, on the charge resulting from the capital guarantee offered on these same segregated funds, as well as on the return of assets backing the capital and, to a lesser extent, the Company's general fund actuarial liabilities. In order to ensure sound management of the risk of a stock market downturn, the Company's investment policy clearly defines quantitative and qualitative limits for the use of shares.

The Company estimates that a 10% drop in the stock market lasting for one full year would lead to a decrease in net earnings of some $12 million.

Insolvency Risk — Insolvency risk is the risk that the Company will not be able to meet the demands of future claims as they arise. The regulatory authorities closely monitor the solvency of insurance companies by requiring them to comply with strict solvency standards based on the risk assumed by each company with respect to asset composition, liability composition, and the matching between these two components. The Company is required to submit regular reports to the regulatory organizations regarding its solvency. It also publishes its solvency ratio every quarter. The minimum solvency ratio targeted by the Company is 175%, which is much higher than the regulatory authorities' requirements.

To measure the degree to which the Company is able to meet regulatory solvency requirements, the appointed actuary must present an annual report to the Audit Committee and management on the Company's current and future solvency. This report is called Dynamic Capital Adequacy Testing. As part of this testing, the valuation actuary must identify the main risks that can affect the Company's solvency, measure the potential impact of these risks, and specify ways to alleviate them. Interest rate fluctuations and a stock market downturn are among the scenarios analyzed.

According to the most recent Dynamic Capital Adequacy Testing scenarios presented to the Board of Directors, even in the absence of corrective measures by management, the Company's solvency remains higher than the standards set out by the regulatory authorities for all analyzed scenarios.

Legal and Regulatory Risk — Legal and regulatory risk arises from non-compliance with the laws, regulations or guidelines applicable to the Company as well as the risk of loss resulting from a contract. The Company is subject to strict regulatory requirements and detailed monitoring of its operations in all provinces or states where it conducts business, either directly or through its subsidiaries.

The Company has standards of sound business and financial practices that allow it to manage the legal and regulatory risk, which it does by employing specialized resources in its Legal Department and collaborating with the industry in implementing the procedures required to respect any new laws or guidelines.

The Board of Directors Audit Committee of Industrial Alliance, as well as those of its subsidiaries periodically receive reports on all lawsuits, whether they be in the normal course of operations, where the contesting of certain claims appears normal, or outside the normal course of operations. In certain cases, the opinion of the internal Legal Departments is backed by independent experts and sufficient provisions are taken when deemed necessary.

Operational Risk — Operational risk arises from uncertainty related to the financial consequences of problems pertaining to the execution of business functions or processes, and can result from deficiencies or breakdowns in internal controls or processes, technology failures, human error, dishonesty and natural disasters.

The Company has established standards and procedures to ensure that appropriate and effective internal controls are developed and implemented to manage operational risk, and that reliable and comprehensive systems are in place to properly monitor the effectiveness of these controls on a regular basis. Management actively manages its operations, and in order to manage the operational risk, has implemented a very detailed business resumption plan regarding both the physical occupancy of the premises and the information systems. In addition, the Company has procedures in place in all of its offices to minimize any disruption in service in the event of a natural or other disaster. These procedures are reviewed and tested on a regular basis.

The Board of Directors and its committees supervise actions taken by management in this respect through annual reviews of the main risk management policies and practices, and through reports written by the Internal Audit Department and by independent auditors.

Much of the success of the Industrial Alliance Group of Companies comes from the skills, commitment and capacity of its employees to work as a team at all levels.

In 2002, the number of employees in the life and health insurance companies of the Industrial Alliance Group increased from 2,035 to 2,110 (Figure 36), an increase of 75. About two thirds of the increase is explained by the addition of personnel to administer the group insurance plans for the Canadian divisions of Bombardier and the group pensions contracts of National Bank Trust. Since 1997, the Industrial Alliance Group has added 575 new employees to its ranks, an increase of 37%. This growth reflects the dynamism that has spread through the organization in the last few years.

Our challenge with respect to human resources is to recruit and retain high quality employees by investing in training to perfect their skills and by compensating them according to their performance. One of the Group's strengths is to train its own personnel and to accompany them along their career path so that they can realize their full potential.

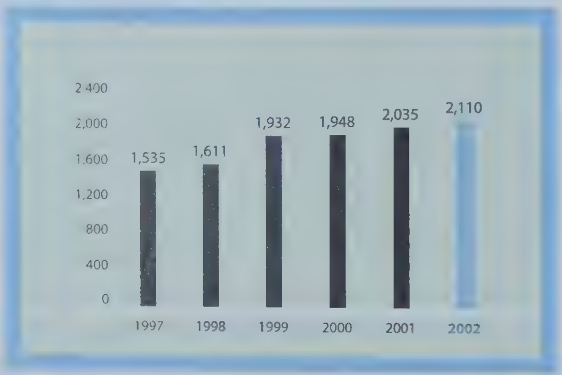
Here are a few of the 2002 achievements.

Recruiting

The Internet has become our primary recruiting tool, thus expanding our visibility among potential candidates while making the Industrial Alliance Group more prominent in the public eye. This increased use of the Internet has resulted in a productivity gain, thus leading to lower costs in the recruiting process.

We have also broadened our recruiting activities for university graduates by becoming more involved in career days organized by universities, particularly in the Atlantic provinces.

36 **Number of Employees**
Life Insurance Companies



Personnel Development

The Industrial Alliance Group contributes to the ongoing development of its human resources at all levels by offering various training programs. For example, in 2002, different groups of managers were able to take advantage of a management skills upgrading program, while the succession identification and training program was revised so that it better corresponds to emerging needs and future challenges.

> **"Much of the success of the Industrial Alliance Group of Companies comes from the skills, commitment and capacity of its employees to work as a team at all levels."**

Hence, for the first time in 2002, all Industrial Alliance Group employees were given performance evaluations that affected the salary increases granted at the beginning of 2003. This performance evaluation process will be repeated each year and, among other things, will allow management to reinforce the expected behaviour of employees.

Disability Management

Like many other large companies, in the last few years, we have seen an increase in our absenteeism rate. We have therefore implemented various measures to slow this increase. We now rely on specialized counsellors to favour a temporarily disabled employee's early return to work. Also, as a preventive measure, conferences have been offered to employees on various health matters.

Synergy within the Industrial Alliance Group

In 2002, the heads of the human resources divisions of the Group's three life insurance companies met to discuss bases for future collaborations. The new synergy between the three companies and the standardization of certain current practices should lead to lower costs, particularly with respect to recruiting.

The Industrial Alliance Group views its commitment to the community as a natural extension of the values that have allowed it to grow and flourish over the years. In addition to ensuring the financial security of the individuals it serves, the Industrial Alliance Group wishes to improve the quality of life of its surrounding community through donations, sponsorships and employee initiative programs.

Donations

As a member of the Imagine Program, the Industrial Alliance Group donates 1% of its pre-tax profits to organizations that play a key role in helping their communities. In 2002, it provided support to a number of organizations primarily in the health, education and social service sectors.

Imagine A Caring Company

Sponsorships

Through its sponsorship program, which provides financial support primarily to family-oriented events, the Industrial Alliance Group favours the emergence of new talent and endorses activities with a broad social reach. The following is a sampling of its involvement across the country:

In British Columbia, Industrial Alliance *Pacific* was the presenting sponsor for the 8th consecutive year of the Canadian Cancer Society's Relay for a Friend in various locations in and around Vancouver.

On a musical note, Industrial Alliance *Pacific* continued with its annual sponsorship of the Vancouver Symphony Orchestra's elementary school concert program, enabling over 40,000 students from kindergarten to grade 6 to experience concerts specifically tailored to their age group.

In 2002, Industrial Alliance *Pacific* also served as honorary ringmaster in concert with Industrial Alliance for Cirque Éos, at shows in Vancouver and Montreal during the troupe's North American tour.

In Ontario, National Life opened its doors as a participant in the Take Your Kids to Work Day Program to encourage youth to explore careers in the financial services industry.

Through its Community Youth Sponsorship Program, National Life helped children participate in academic and athletic pursuits.

In 2002, National Life received recognition from the City of Toronto for its dedication, enthusiasm and generosity in volunteering with a local agency's Meals on Wheels Program.

For more than 10 years, National Life has also supported the Easter Seals Telethons, which assists children with disabilities.

In Quebec, Industrial Alliance sponsored and took part in campaign activities for the 2002 Lotopompier campaign, a well-known event that raises funds for major burn victims. Among its contributions, the Company sponsored a fire awareness campaign that travelled to a dozen cities across Quebec.

On the artistic scene, Industrial Alliance concluded a major partnership agreement with the internationally renowned circus troupe Cirque Éloize.

Industrial Alliance was also the main partner in the presentation of Industrial Alliance *Show et froid*, a multidisciplinary show that was presented in Quebec City last summer and later broadcast across the country by the CBC's English and French language television networks.

Industrial Alliance also renewed its partnership with the Quebec City Symphony Orchestra in presenting the Industrial Alliance Family Concerts as well as its agreement with the Domaine Forget International Festival for the *Jeudis Jazz* concert series.

Finally, Industrial Alliance was the exclusive partner of the elephant pavilion at the Granby Zoo, which greets over a half million visitors each year.

Employee Initiatives

Through an internal financial support program, the Industrial Alliance Group supports the volunteer work and initiatives of Group employees to raise funds among their colleagues for recognized humanitarian organizations.

All Industrial Alliance Group employees also participate in the annual United Way fundraising campaigns across Canada. In addition to the financial support provided through employee and corporate donations each year, a Quebec City employee is also released from normal duties for several months to help organize the regional campaign. The significant involvement shown by employees in Quebec City resulted in Industrial Alliance being awarded a Platinum certificate for a third consecutive year.

Together with its general insurance subsidiary, Industrial Alliance Auto and Home Insurance, Industrial Alliance also received the Business and Social Commitment Award, which was jointly created by the United Way and the Quebec Chamber of Commerce in order to honour companies whose community involvement is an integral part of their corporate culture and activities.

CONSOLIDATED
Financial Statements

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Management's Report

The consolidated financial statements of Industrial-Alliance Life Insurance Company are the responsibility of the Company's Management. These statements have been prepared in accordance with Canadian generally accepted accounting principles and contain certain amounts based on best judgement and estimates. The financial information presented elsewhere in this annual report complies with the information contained in the financial statements, which have been approved by the Board of Directors.

In order to carry out its responsibilities with regard to the financial statements, Management maintains internal control systems that aim to provide a reasonable degree of certainty that transactions are duly authorized, that the assets are well protected, and that adequate records are kept. These internal control systems are reinforced by the work of a team of internal auditors, who conduct a periodic review of all departments within the Company.

The Appointed Actuary is appointed by the Board of Directors in accordance with *An Act respecting insurance* (Quebec), and is responsible for valuation of actuarial liabilities in accordance with the standards of practice of the Canadian Institute of Actuaries. Moreover, independent auditors appointed by the shareholders ensure the accuracy of the information presented in the financial statements, and express their opinion on these statements.

At regular intervals, auditing is performed by the Inspector General of Financial Institutions to ascertain whether the terms of the law concerning policyowners' interest and the preservation of a sound financial position are respected.

The Board of Directors Audit Committee, comprised solely of board members who are neither managers nor employees of the Company, ensures that Management assumes its responsibility in terms of financial information. This committee meets regularly with Management and the internal and external auditors. The latter may, as they see fit, meet with the Audit Committee, with or without Management, to discuss matters affecting the audit and financial information.

On behalf of Management,

Yvon Charest

Yvon Charest
President and Chief Executive Officer
Quebec City, February 11, 2003

Appointed Actuary's Report

To the shareholders of Industrial-Alliance Life Insurance Company

I have valued the policy liabilities of Industrial-Alliance Life Insurance Company for its consolidated balance sheets as at December 31, 2002 and 2001 and the variation in the policy liabilities in its consolidated income statements for the years then ended. These valuations were carried out in accordance with accepted actuarial practices, using appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyowner obligations. The results are also fairly presented in the consolidated financial statements.

Michel Sanschagrin
Fellow of the Canadian Institute of Actuaries
Quebec City, January 31, 2003

Consolidated
Income Statements

Years ended December 31 (in millions of dollars, unless otherwise indicated)

	2002	2001
Revenue		
Premiums	$ 2,337.2	$ 2,077.0
Net investment income (note 6)	450.2	542.3
Fees and other revenues	95.3	93.6
	2,882.7	2,712.9
Policy benefits and expenses		
Change in provisions for future policy benefits	263.6	233.5
Payments to policyholders and beneficiaries	1,117.4	1,138.3
Net transfer to segregated funds	737.9	652.8
Dividends, experience refunds and interest on amounts on deposit	30.3	8.5
Commissions	309.9	260.4
Premium and other taxes	39.3	36.5
General expenses	226.6	212.0
Net financing expenses	14.1	14.6
	2,739.1	2,556.6
Income before income taxes and goodwill expense	143.6	156.3
Income taxes (note 7)	(36.8)	(46.3)
Income before goodwill expense	106.8	110.0
Goodwill expense	—	3.4
Net income	$ 106.8	$ 106.6
Net income attributable to participating policyholders	$ 6.1	$ 2.7
Net income attributable to shareholders	$ 100.7	$ 103.9
Net income attributable to shareholders adjusted for goodwill expense	$ 100.7	$ 107.3
Earnings per share (note 16)		
Basic and diluted (in dollars)	$ 2.66	$ 2.75
Basic and diluted adjusted for goodwill expense (in dollars)	$ 2.66	$ 2.84

CONSOLIDATED Balance Sheets

As at December 31 (in millions of dollars)

	2002	2001
Assets		
Invested assets (note 9)		
Bonds	$ 4,686.4	$ 4,193.2
Mortgages	2,526.5	2,660.4
Stocks	720.1	703.2
Real estate	436.0	424.9
Policy loans	157.6	147.5
Cash and cash equivalents	305.1	247.1
Short-term investments	34.0	115.8
Other invested assets	69.2	78.6
	8,934.9	8,570.7
Goodwill (note 3)	51.9	49.4
Other assets (note 10)	302.4	266.2
Total general fund assets	$ 9,289.2	$ 8,886.3
Segregated funds net assets	$ 4,173.5	$ 4,049.6
Liabilities		
Policy liabilities (note 11)		
Provisions for future policy benefits	$ 6,997.6	$ 6,734.1
Provisions for dividends to policyowners and experience rating refunds	29.4	13.4
Benefits payable and provision for unreported claims	124.7	107.0
Policyholders' amounts on deposit	154.9	167.0
	7,306.6	7,021.5
Deferred net realized gains (note 12)	314.1	317.9
Other liabilities (note 13)	486.0	443.7
Subordinated debentures (note 14)	185.0	185.0
Equity		
Participating policyholders' account	59.5	53.4
Shareholders' equity		
Share capital (note 15)	457.0	457.0
Retained earnings	473.5	397.6
Currency translation account	7.5	10.2
	938.0	864.8
Total general fund liabilities and equity	$ 9,289.2	$ 8,886.3
Segregated funds liabilities	$ 4,173.5	$ 4,049.6

On behalf of the Board,

Yvon Charest

Yvon Charest, Director

Michel Gervais

Michel Gervais, Director

Consolidated
Participating Policyholders' Account

Years ended December 31 (in millions of dollars)

	2002	2001
Participating account at beginning of year	$ 53.4	$ 50.7
Net income attributable to participating policyholders	6.1	2.7
Participating account at end of year	$ 59.5	$ 53.4

Consolidated
Shareholders' Retained Earnings

Years ended December 31 (in millions of dollars)

	2002	2001
Retained earnings at beginning of year	$ 397.6	$ 316.9
Net income attributable to shareholders	100.7	103.9
Dividends	(24.8)	(23.2)
Retained earnings at end of year	$ 473.5	$ 397.6

Consolidated
Cash Flows Statements

Years ended December 31 (in millions of dollars)

	2002	2001
Cash flows from operating activities		
Net income	$ 106.8	$ 106.6
Items not affecting cash and cash equivalents:		
Change in provision for future policy benefits	263.6	233.5
Share of net results of significantly influenced entity	(0.8)	1.4
Amortization of realized and unrealized gains	17.9	5.1
Amortization of premiums and discounts	(124.7)	(103.6)
Future income taxes	2.3	18.4
Other	55.6	24.6
	320.7	286.0
Other changes in other assets and liabilities	45.0	(42.1)
Cash flows from operating activities	365.7	243.9
Cash flows from investing activities		
Sales, maturities and repayments of:		
Bonds	920.4	858.5
Mortgages	516.0	493.1
Stocks	420.7	319.8
Real estate	7.7	9.0
Policy loans	39.2	44.7
Other invested assets	239.6	1,292.3
	2,143.6	3,017.4
Purchases of:		
Bonds	(1,274.4)	(1,057.0)
Mortgages	(378.1)	(414.0)
Stocks	(512.3)	(321.3)
Real estate	(28.2)	(43.8)
Policy loans	(46.4)	(50.5)
Other invested assets	(175.3)	(1,370.9)
Acquisition, net of cash and short term	(0.2)	16.3
	(2,414.9)	(3,241.2)
Cash flows from investing activities	(271.3)	(223.8)
Cash flows from financing activities		
Issue of common shares	—	2.8
Dividends paid on preferred shares	(0.7)	(0.7)
Dividends paid on common shares	(24.1)	(22.5)
Increase (decrease) in mortgage debt	(7.0)	10.7
Cash flows from financing activities	(31.8)	(9.7)
Increase in cash and cash equivalents	62.6	10.4
Cash and cash equivalents at beginning	242.5	232.1
Cash and cash equivalents at end (note 21)	$ 305.1	$ 242.5
Supplementary information		
Interest paid	$ 17.3	$ 21.9
Income taxes paid	$ 17.0	$ 32.1

Years ended December 31 (in millions of dollars)

Consolidated Statements of Changes in Net Assets

	2002	2001
Net assets at beginning of year	$ 4,049.6	$ 5,432.8
Additions:		
Amounts received from policyholders	960.3	732.6
Amounts received from a major contract	—	123.6
Decrease resulting from business transfer to a significantly influenced entity	—	(1,557.1)
Investment income	126.7	179.9
Net realized gain (loss)	(45.1)	19.9
Net decrease in market value	(295.8)	(173.2)
	4,795.7	4,758.5
Deductions:		
Amounts withdrawn by policyholders	534.9	624.0
Operating expenses	87.3	84.9
	622.2	708.9
Net assets at end of year	$ 4,173.5	$ 4,049.6

As at December 31 (in millions of dollars)

Consolidated Statements of Net Assets

	2002	2001
Assets		
Bonds	$ 1,085.0	$ 1,215.9
Mortgages and securities	46.9	65.4
Stocks	1,388.7	1,231.7
Units	1,361.3	1,241.7
Cash and short-term investments	283.7	285.4
Other assets	18.8	21.5
	4,184.4	4,061.6
Liabilities		
Accounts payable	10.9	12.0
Net assets	$ 4,173.5	$ 4,049.6

1 Status and Nature of Activities

Industrial-Alliance Life Insurance Company, a life insurance company incorporated under *An Act respecting insurance* (Quebec), constitutes, with its subsidiaries, a group of companies engaged mainly in the development, marketing and distribution of insurance and annuity products. The operations of the life and health insurance business extend throughout Canada and certain regions in the western United States, while the general insurance operations are concentrated mainly in Quebec.

2 Accounting Policies

The financial statements are prepared in accordance with Canadian generally accepted accounting principles and maintain principles particular to each of the entities included in the consolidation, namely:

- Life insurance companies;
- General insurance companies.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenues, policy benefits, and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates are related to the determination of actuarial liabilities.

Consolidation Principles
Ownership interest, other than portfolio investments in common and preferred stocks, are recorded using the following methods:

- The accounts of the subsidiaries are consolidated;
- The investment in a significantly influenced entity, MD Life, for 45% of the share capital is presented at the equity value.

Intercompany balances and transactions have been eliminated.

Matching of Assets to Liabilities
To properly manage the risks of interest rate fluctuations and fund availability, the Company maintains a system to match its assets to its policy liabilities and long-term debt, hedges its liabilities until they expire and uses derivative products as complementary management tools. Consequently, assets are chosen on the basis of amount, cash flow and return in order to correspond to the characteristics of the hedged liabilities. The accounting policies for derivative financial instruments used for hedging correspond to those used for the underlying hedged position. Therefore, any change in market value of the asset held for hedging purposes will have little impact on the financial position of the Company and on its ability to honour its obligations. Finally, in the evaluation of its policy liabilities, as described in note 11 below, the Company takes into account the level of matching achieved between assets and liabilities.

Credit Risk
The Company maintains provisions for credit losses, including losses of principal and interest on bonds, mortgages, and real estate acquired by foreclosure. Provisions for credit losses consist of specific provisions for loans and debt considered to be impaired and a general provision for other future potential credit losses.

The carrying value of loans and debt securities considered by the Company to be impaired is reduced by specific provisions to the value estimated to be realizable in the normal course of operations. A loan is considered to be impaired if, as a result of a deterioration in credit quality, there is no longer reasonable assurance of timely collection of the full amount of principal and interest. Any loan on which contractual payments are in arrears for 90 days or more is assumed to be impaired. In addition, the Company considers other factors in determining if a loan is impaired including the overall credit quality of the borrower and the fair value of the property given as security.

A general provision, included as a component of policy liabilities, is made for other potential future losses on loans and debt securities.

When an asset is impaired, interest is no longer accrued and previous interest accruals are reversed.

Bonds
Bonds are recorded at cost, adjusted for amortization of premiums and discounts and a provision for credit losses. Realized gains and losses on the sale of such securities are deferred and amortized to income over the remaining term of the securities sold, up to a maximum of 20 years. Permanent declines in value are taken into account when recognized and are charged to operations of that year.

Years ended December 31, 2002 and 2001 (in millions of dollars)

2 Accounting Policies (continued)

Mortgages

Mortgages are presented at the amount of the principal balance receivable net of a provision for credit losses and unamortized premiums and discounts. Restructured mortgage loans are also adjusted for unamortized discounts representing interest concessions.

Realized gains and losses on the sale of such loans are deferred and amortized to income over the remaining life of the loans sold. Commissions paid at the issue of new loans are deferred and amortized to operations over the life of the related loans.

Stocks

Stocks held in portfolios include common stock, preferred stock and market indices, are carried at cost and the carrying value is adjusted for changes under the moving average market method using a 15% annual rate. Realized gains and losses on the sale of such stocks are deferred and amortized to income using the declining balance method at the annual rate of 15%.

Stocks, that are specifically matched to universal life policies, are carried at market value and any variation in value is recognized immediately in the income statement.

Seed money invested in segregated funds is also accounted at the market value and any variation in value is recognized immediately in the income statement.

Real Estate

The value of real estate held for investment is based on market value, which is determined every three years. The increase or decrease in value is recognized using the moving average market value method using a 10% annual rate. The Company records a write-down for any other than temporary decline in value.

Gains and losses realized on the sale of these investments are deferred and amortized to income using the declining balance method at the annual rate of 10%.

Real estate held for sale is recorded at the lower of the estimated net realizable value and the carrying value of the foreclosed loan. Realized gains and losses on the sale of these investments are recorded directly in the income statement.

Policy Loans

Policy loans are recorded at the amount of the outstanding balance and are fully secured by the cash surrender value of the policies, on which the respective loans are made.

Cash and Cash Equivalents

Cash and cash equivalents are highly liquid investments with an original term to maturity of three months or less that are held for the purpose of meeting short-term cash commitments.

Derivative Financial Instruments

The Company uses derivative financial instruments, including contracts for foreign currency, interest rate and market indices when appropriate, to manage exposure to the foreign currency, interest rate and stock market risks associated with certain assets and liabilities. The Company also uses derivative financial instruments for non-hedging purposes.

The Company believes that derivative financial instruments are efficient hedges, when appropriately structured at the time the hedge is implemented and so maintained for the duration of the instrument.

The Company uses interest swaps and market index contracts as part of its program to match its assets to its actuarial liabilities. Swap contracts give rise to periodic exchanges of interest payments with no exchange on the notional amount on which the payments are based. The realized and unrealized gains and losses on these derivative financial instruments used for hedging purposes are accounted for in the same way as the underlying liabilities.

The Company uses currency swap contracts as part of its management of the foreign exchange risk exposure with respect to certain investments or commitments denominated in foreign currency. The Company designates swap contracts as hedges and the currency gains and losses resulting from these swaps are offset by corresponding currency gains and losses on the covered items.

The gains or losses related to market index swaps used for speculative purposes are deferred and transferred to the income statement according to the declining balance method at the annual rate of 15%. The gains or losses related to interest rate swaps are recorded directly in the income statement.

The receivables and payables on derivative financial instruments are included with other assets and liabilities respectively, and the unamortized realized gains and losses are included in the deferred net realized gains on the balance sheet.

Other Invested Assets

Other invested assets include the investment fund and the investment in the significantly influenced entity. The investment fund consists of investment securities matched with the subordinated debenture of $60.0, accrued revenues and receivables arising from decline in value of those securities. Investment securities are recorded at market value. Any increase or decrease in value and gains and losses realized on the sale of such securities are applied directly to operations for the year in which they occur.

2 Accounting Policies (continued)

Fixed Assets

Fixed assets, consisting mainly of systems hardware and software, leasehold improvements to real estate held for investment purposes and office furniture and equipment, are recorded at historical cost less accumulated depreciation and amortization. They are principally depreciated under the straight-line method over their estimated useful lives (ranging from three to eight years) or the original term of their related lease agreements.

Goodwill

Goodwill arises on acquisitions and represents the excess cost of subsidiaries stock over the fair value of net assets acquired. The fair value of goodwill assigned to each reporting unit is valued annually. Goodwill is written down to its fair value when there has been a permanent decline in value based on forecast investment returns.

Segregated Funds

Funds from group or individual pension plans issued by the Company may be invested in separate portfolios at the option of the policyholders. Although the underlying assets are registered in the name of the Company and the segregated fund policyholder has no direct access to the specific assets, the policyholder bears the risks and rewards of the fund's investment performance. Individual contracts also have guarantees from the Company. Segregated fund assets may not be applied against the liabilities that arise from any other business of the Company. The assets, managed by the Company, but not included in the general fund, are carried at market value. The Company derives fee income from the management of its segregated funds.

Provisions for Future Policy Benefits

Provisions for future policy benefits represent the amount which, together with future premiums and investment income, provide for all commitments under policy contracts. These provisions are established using the Canadian Asset Liability Method (CALM), which is generally accepted actuarial practice according to the standards established by the Canadian Institute of Actuaries (CIA).

These provisions are calculated based on assumptions that are regularly tested and, if need be, modified to reflect changes in plan experience.

Litigation Related to Policyholder Contracts

In connection with its operations, the Company is, from time to time, named as defendant in actions for damages and costs allegedly sustained by plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, the Company does not believe that it will incur any material loss or expense in connection with such actions and the latter are taken into account at the conclusion of the concerned cases.

Income Taxes

The Company uses the future income taxes method according to which the income taxes payable are based on taxable income and the future income taxes are based on taxable temporary difference between the carrying value of the assets and liabilities and their values for tax purposes. The tax rate used to evaluate the future income tax assets or liabilities corresponds to the rate enacted at the balance sheet dates.

In addition to income taxes, charges to operations include the tax on capital imposed on financial institutions and the large corporations tax.

Foreign Currencies

The Company's operations in the United States are considered to be self-sustaining. Assets and liabilities denominated in foreign currency are translated into Canadian dollars at the period-end exchange rate while revenues and expenses are translated at the rate of exchange in effect on the dates when they occur. Gains and losses resulting from the translation of balance sheet items related to activities maintained outside Canada are recorded in the Currency Translation Account, a component of equity, whereas those related to operations are directly included in the income statement.

Premiums

Insurance and annuity premiums are recognized as revenue when due under contracts in force. Premiums are reported net of the share ceded to reinsurers for insuring a part of the risk. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

Investment Income

Investment income is recorded on an accrual basis and is shown net of related expenses.

Fees and Other Revenues

Fees and other revenues primarily represent fees earned from the management of the Company's segregated fund assets and administrative services only (ASO) income.

Net Transfer to Segregated Funds

Net transfer to segregated funds represents the total amount transferred from the general fund to segregated funds less the total amount transferred from the segregated funds to the general fund.

Years ended December 31, 2002 and 2001 (in millions of dollars)

2 Accounting Policies (continued)

Employee Future Benefits

The cost of the employee future benefits is determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. The discount rate used to determine the accrued benefit obligation refers to market interest rates at the measurement date on high quality debt instruments with cash flows that match the expected benefit payments. The excess of net actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the remaining service life of active employees.

Earnings per Share

The treasury stock method is used for determining the dilutive effect of stock options. The matching of the numerators and denominators used in computing basic and diluted earnings per share are presented in accordance with the standard.

3 Change in Accounting Policies

Goodwill

Effective July 1, 2001, the Company adopted the new Canadian Institute of Chartered Accountants (CICA) accounting standard on goodwill. As a result, there is no amortization of goodwill recorded effective January 1, 2002.

In accordance with the new accounting standard, the Company has analyzed existing goodwill. The Company also completed the impairment testing and the allocation to reporting units.

Carrying value of goodwill and changes in the carrying value are as follows:

	2002
Balance at beginning of year	$ 49.4
Acquisition of business	1.7
Letters patent and licences acquisition	0.1
Adjustment on 2001 transaction	0.7
Balance at end of year	$ 51.9

Stock-Based Compensation

Effective January 1, 2002, the Company adopted prospectively the new CICA accounting standard on stock-based compensation and other stock-based payments. This new standard allows for the use of either the fair value or intrinsic value based methods of accounting for employee stock compensation. The Company uses the intrinsic value method of accounting for the employee stock-based compensation, and, in accordance with that method, no compensation expense is recognized. The new standard also requires that stock appreciation rights (SAR) that can be settled in cash be recorded as liabilities for the difference of market value of the shares over the exercise price. The Company accrues compensation expenses of its SAR plan; total expenses for the plan are included in general expenses on the consolidated income statement.

4 Teleglobe Provision

Following the announcement by BCE Inc. in April 2002 that it will cease further long-term financing to Teleglobe Inc., the Company decided to set up a provision for the full amount of its investments in Teleglobe securities effective at the end of March 2002. The net income in the consolidated financial statements has been reduced by a charge of $19.4 million. This reflects a gross provision of $27.9 million offset by $8.5 million in related income taxes.

Years ended December 31, 2002 and 2001 (in millions of dollars)

5 Acquisition of Business

On March 19, 2002, the Company purchased the shares of ISL-Lafferty Securities Inc., a fully licensed securities broker, for a consideration of $0.6 in cash and changed its name to Industrial Alliance Securities Inc. On April 3, 2002, Industrial Alliance Securities purchased the business of BNP (Canada) Securities Inc., and, on August 31, 2002, it acquired certain assets of Leduc & Associates Securities (Canada) Ltd., for $1.7 in cash.

On June 1, 2001, the Company acquired the assets of Groupe Financier Concorde, a mutual fund dealer, for $0.2 in cash.

On July 24, 2001, the Company acquired 100% of the shares of Aegis Insurance Corporation and its affiliated company Sascar Management Ltd., operating in credit insurance for a consideration of $6.6 in cash and $2.8 in Industrial Alliance shares.

The assets and liabilities acquired are summarized as follows:

	2002		2001	
	ISL	BNP/Leduc	Aegis/Sascar	Groupe Financier Concorde
Assets acquired				
Bonds	$ —	$ —	$ 0.5	$ —
Other assets	2.9	—	19.4	0.2
	2.9	—	19.9	0.2
Liabilities assumed				
Other liabilities	2.4	—	13.5	—
Net assets acquired	0.5	—	6.4	0.2
Goodwill	0.1	1.7	3.0	—
Purchase price	$ 0.6	$ 1.7	$ 9.4	$ 0.2

6 Net Investment Income

Net investment income was derived from the following sources:

	2002			
	Investment Income	Realized and unrealized gains (losses)	Change in provision for losses	Total
Bonds	$ 323.3	$ 32.3	$ (29.1)	$ 326.5
Mortgages	182.8	2.2	0.2	185.2
Stocks	15.6	(114.6)	—	(99.0)
Real estate (net of $44.3 in operating expenses)	27.7	1.8	—	29.5
Short-term investments	8.2	—	—	8.2
Other	14.0	—	—	14.0
	571.6	(78.3)	(28.9)	464.4
Investment expenses	(14.2)	—	—	(14.2)
Total	$ 557.4	$ (78.3)	$ (28.9)	$ 450.2

Years ended December 31, 2002 and 2001 (in millions of dollars)

6 Net Investment Income (continued)

	2001			
	Investment Income	Realized and unrealized gains (losses)	Change in provision for losses	Total
Bonds	$ 302.4	$ 34.1	$ (1.4)	$ 335.1
Mortgages	200.5	3.3	(0.8)	203.0
Stocks	17.5	(55.5)	—	(38.0)
Real estate (net of $39.9 in operating expenses)	26.0	1.5	—	27.5
Short-term investments	14.1	—	—	14.1
Other	14.9	—	—	14.9
	575.4	(16.6)	(2.2)	556.6
Investment expenses	(14.3)	—	—	(14.3)
Total	$ 561.1	$ (16.6)	$ (2.2)	$ 542.3

7 Income Taxes

Income taxes reflect a different effective tax rate than the combined federal and provincial tax rate due to the following items:

	2002	2001
Income before income taxes but after goodwill expense	$ 143.6	$ 152.9
Provision for income tax at Canadian statutory rates	53.0	59.1
Non-taxable income	(9.5)	(13.3)
Change in tax rate	(6.8)	(3.2)
Large corporations and financial institutions taxes	0.1	3.7
	$ 36.8	$ 46.3

Total taxes charged to the income statement are divided as follows:

	2002	2001
Future income taxes	$ 2.3	$ 18.4
Income taxes payable	34.5	27.9
	$ 36.8	$ 46.3

The future tax liability, included in other liabilities on the balance sheet, is related to the temporary differences on the following principal items:

	2002	2001
Policy liabilities	$ 140.1	$ 126.1
Real estate	39.1	43.1
Other	(43.1)	(35.4)
	$ 136.1	$ 133.8

8 Retained Earnings

To conform to Quebec statutory requirements with respect to provisions for future policy benefits, an amount of $188.6 of the retained earnings is appropriated ($162.3 as at December 31, 2001).

Years ended December 31, 2002 and 2001 (in millions of dollars)

9 Invested Assets

a) Carrying value, fair value, credit risk and concentration risk

Credit risk is the risk of financial loss resulting from the failure of borrowers to make payments of principal or interest when they fall due. Concentration risk arises when multiple credits are granted to borrowers with similar characteristics, or large credits are granted to one borrower.

The Company manages credit and concentration risk by:

- Establishing investment policies that are approved by the board of directors, reviewed and updated on a regular basis;
- Requiring prudent diversification of credit portfolios;
- Establishing limits to credit exposures according to the characteristics of counterparties;
- Requiring the use of established underwriting and credit granting procedures monitoring;
- Monitoring with established investment on a regular basis, regularly updating its assessment of risk after the credit was originally granted;
- Requiring independent reviews and audits of its credit risk management program; and
- Reporting to the board of directors the results of the monitoring program, reviews and audits.

The following tables provide information about the Company's exposure to credit and concentration risk.

	2002				
	Carrying value of unimpaired investments	Carrying value of impaired investments	Total carrying value of investments	Unrealized gains/ (losses)	Fair value
Bonds					
Government	$ 2,584.7	$ —	$ 2,584.7	$ 788.7	$ 3,373.4
Municipalities	118.0	—	118.0	11.7	129.7
Corporation and other	1,982.3	1.4	1,983.7	(63.7)	1,920.0
	4,685.0	1.4	4,686.4	736.7	5,423.1
Mortgages					
Insured	1,134.9	9.1	1,144.0	34.0	1,178.0
Conventional	1,373.6	8.9	1,382.5	55.0	1,437.5
	2,508.5	18.0	2,526.5	89.0	2,615.5
Stocks	720.1	—	720.1	(28.4)	691.7
Real estate					
Held for investment	427.0	—	427.0	18.8	445.8
Held for resale	—	9.0	9.0	0.8	9.8
	427.0	9.0	436.0	19.6	455.6
Policy loans	157.6	—	157.6	—	157.6
Cash and cash equivalents	305.1	—	305.1	—	305.1
Short-term investments	34.0	—	34.0	—	34.0
Other invested assets	69.2	—	69.2	—	69.2
Total	$ 8,906.5	$ 28.4	$ 8,934.9	$ 816.9	$ 9,751.8

Years ended December 31, 2002 and 2001 (in millions of dollars)

9 Invested Assets (continued)

	2001				
	Carrying value of unimpaired investments	Carrying value of impaired investments	Total carrying value of investments	Unrealized gains/ (losses)	Fair value
Bonds					
Government	$ 2,197.7	$ —	$ 2,197.7	$ 683.2	$ 2,880.9
Municipalities	50.3	—	50.3	12.3	62.6
Corporation and other	1,943.8	1.4	1,945.2	(197.1)	1,748.1
	4,191.8	1.4	4,193.2	498.4	4,691.6
Mortgages					
Insured	1,084.9	2.8	1,087.7	32.4	1,120.1
Conventional	1,563.6	9.1	1,572.7	57.8	1,630.5
	2,648.5	11.9	2,660.4	90.2	2,750.6
Stocks	703.2	—	703.2	(12.5)	690.7
Real estate					
Held for investment	411.3	—	411.3	24.6	435.9
Held for resale	—	13.6	13.6	2.3	15.9
	411.3	13.6	424.9	26.9	451.8
Policy loans	147.5	—	147.5	—	147.5
Cash and cash equivalents	247.1	—	247.1	—	247.1
Short-term investments	115.8	—	115.8	—	115.8
Other invested assets	78.6	—	78.6	—	78.6
Total	$ 8,543.8	$ 26.9	$ 8,570.7	$ 603.0	$ 9,173.7

Other invested assets

	2002	2001
Investment securities (at market value)	$ 61.1	$ 71.5
Receivable and accrued revenue	0.6	0.4
Significantly influenced entity	7.5	6.7
Total	$ 69.2	$ 78.6

For bonds and stocks, fair values are determined with reference to quoted market price, when available, otherwise, an appraisal is done using similar securities. For mortgages, the fair value reflects changes in interest rates, which have occurred since the mortgages were originated. The value for real estate is determined by a combination of internal and external appraisals using expected net cash flows discounted at the market interest rate. For policy loans, cash and short-term investments and other remaining invested assets, the fair value is the same as the carrying value due to their short-term nature.

b) Interest Rate Risk

Interest rate risk arises when fluctuations in market interest rates change the cash flows of the Company's investments, and do not equally affect the cash flows of the Company's liabilities.

The following tables provide information about the maturity dates and fair value of the Company's invested assets that are subject to interest rate risk.

	2002			
	Bonds		Mortgages	
	Carrying value	Fair value	Carrying value	Fair value
Due in 1 year or less	$ 373.1	$ 378.6	$ 496.3	$ 501.7
Due after 1 year through 5 years	1,047.9	1,128.0	1,467.1	1,514.2
Due after 5 years through 10 years	679.9	796.7	328.6	347.1
Due after 10 years	2,585.5	3,119.8	234.5	252.5
Total	$ 4,686.4	$ 5,423.1	$ 2,526.5	$ 2,615.5

Years ended December 31, 2002 and 2001 (in millions of dollars)

9 Invested Assets (continued)

	2001			
	Bonds		Mortgages	
	Carrying value	Fair value	Carrying value	Fair value
Due in 1 year or less	$ 211.2	$ 216.5	$ 528.9	$ 535.4
Due after 1 year through 5 years	1,007.7	1,089.7	1,474.3	1,525.1
Due after 5 years through 10 years	624.8	706.7	396.6	413.9
Due after 10 years	2,349.5	2,678.7	260.6	276.2
Total	$ 4,193.2	$ 4,691.6	$ 2,660.4	$ 2,750.6

Bonds by investment grade

Carrying value	2002	2001
AAA	$ 571.6	$ 521.2
AA	702.2	548.2
A	3,048.0	2,761.0
BBB	359.4	361.4
BB and lower	5.2	1.4
Total	$ 4,686.4	$ 4,193.2

Mortgages by region and type

	2002					
	Atlantic	Quebec	Ontario	Western	Out of Canada	Total
Residential	$ 1.3	$ 392.5	$ 58.4	$ 13.3	$ —	$ 465.5
Multi-residential	19.6	626.1	210.4	290.7	179.3	1,326.1
Non residential	33.8	274.0	136.9	266.4	23.8	734.9
Total	$ 54.7	$ 1,292.6	$ 405.7	$ 570.4	$ 203.1	$ 2,526.5

	2001					
	Atlantic	Quebec	Ontario	Western	Out of Canada	Total
Residential	$ 1.4	$ 403.9	$ 73.2	$ 18.7	$ —	$ 497.2
Multi-residential	25.0	633.0	216.9	291.5	199.7	1,366.1
Non residential	34.3	285.1	166.1	284.8	26.8	797.1
Total	$ 60.7	$ 1,322.0	$ 456.2	$ 595.0	$ 226.5	$ 2,660.4

Real estate by type of property

Carrying value	2002	2001
Residential and multi-residential	$ 8.5	$ 13.4
Office	307.1	291.5
Retail	93.3	93.5
Industrial	12.3	12.4
Land and other	14.8	14.1
Total	$ 436.0	$ 424.9

Years ended December 31, 2002 and 2001 (in millions of dollars)

9 Invested Assets (continued)

c) Specific provisions for credit losses

	2002	2001
Bonds	$ 30.5	$ 2.8
Insured mortgage loans	0.1	0.3
Conventional mortgage loans	2.2	2.2
Real estate acquired to settle loans	4.0	6.1
Other	4.3	4.3
Total	$ 41.1	$ 15.7
Continuity		
Provisions for losses at beginning of year	$ 15.7	$ 14.3
Net increase in provisions for losses	28.9	2.2
Recoveries	(3.5)	(0.8)
Provisions for losses, at end of year	$ 41.1	$ 15.7

10 Other Assets

	2002	2001
Systems hardware and software, furniture and equipment, at cost	$ 78.0	$ 67.3
Less: accumulated depreciation	47.1	40.4
	30.9	26.9
Leasehold improvements, at cost	49.5	40.3
Less: accumulated depreciation	30.7	24.3
	18.8	16.0
Accounts receivable	108.2	80.8
Investment income due and accrued	61.3	65.7
Outstanding premiums	52.9	51.9
Prepaid expenses	22.0	22.4
Miscellaneous	8.3	2.5
	252.7	223.3
Total	$ 302.4	$ 266.2

The depreciation and amortization of fixed assets charged to income amounted to $10.2 ($11.3 in 2001).

Years ended December 31, 2002 and 2001 (in millions of dollars)

11 Policy Liabilities

Policy liabilities represent the amount which, together with estimated future premiums and investment income, will be sufficient to pay estimated benefits, policyholder dividends and expenses on policies. Policy liabilities are determined using generally accepted actuarial practices according to standards established by the Canadian Institute of Actuaries. Policy liabilities include provisions for future policy benefits, deposit liabilities and incurred but unpaid claims.

The composition of the Company's policy liabilities and the corresponding assets are as follows:

	2002					
	Individual		Group			
Policy liabilities	Life & Health	Annuities	Life & Health	Annuities	Other	Total
Canada	$ 2,859.8	$ 1,483.6	$ 742.8	$ 1,807.1	$ —	$ 6,893.3
United States	118.8	243.5	0.2	0.3	—	362.8
Other countries	49.8	0.7	—	—	—	50.5
Total	$ 3,028.4	$ 1,727.8	$ 743.0	$ 1, 807.4	$ —	$ 7,306.6
Assets backing policy liabilities						
Bonds and other fixed interest securities	$ 2,173.8	$ 515.5	$ 342.3	$ 1,037.9	$ —	$ 4,069.5
Mortgages	270.1	1,098.1	363.9	577.9	—	2,310.0
Stocks	342.1	26.9	10.9	33.8	—	413.7
Real estate	64.0	16.6	—	138.8	—	219.4
Policy loans	99.9	55.8	—	—	—	155.7
Other invested assets	78.5	14.9	25.9	19.0	—	138.3
Total	$ 3,028.4	$ 1,727.8	$ 743.0	$ 1,807.4	$ —	$ 7,306.6

	2001					
	Individual		Group			
Policy liabilities	Life & Health	Annuities	Life & Health	Annuities	Other	Total
Canada	$ 2,678.9	$ 1,472.6	$ 684.9	$ 1,787.9	$ 0.2	$ 6,624.5
United States	112.9	238.2	0.3	0.3	—	351.7
Other countries	44.5	0.8	—	—	—	45.3
Total	$ 2,836.3	$ 1,711.6	$ 685.2	$ 1,788.2	$ 0.2	$ 7,021.5
Assets backing policy liabilities						
Bonds and other fixed interest securities	$ 1,873.9	$ 534.0	$ 333.8	$ 1,038.7	$ 0.2	$ 3,780.6
Mortgages	420.7	1,074.5	303.7	567.0	—	2,365.9
Stocks	368.7	22.3	41.4	34.0	—	466.4
Real estate	59.0	19.4	—	127.9	—	206.3
Policy loans	99.9	45.6	—	0.1	—	145.6
Other invested assets	14.1	15.8	6.3	20.5	—	56.7
Total	$ 2,836.3	$ 1,711.6	$ 685.2	$ 1,788.2	$ 0.2	$ 7,021.5

The fair value of assets backing policy liabilities as at December 31, 2002 was estimated at $8.3 billion ($7.6 billion in 2001). This value should not be compared to the amount of policy liabilities since policy liabilities are not valued at market. Changes in the fair value of assets backing policy liabilities are essentially offset by changes in the fair value of policy liabilities and thus have a limited impact on the Company's equity.

11 Policy Liabilities (continued)

Assumptions

To compute the policy liabilities, assumptions based on the Appointed Actuary's best estimate of future experience have been made for many variables. These variables include mortality, morbidity, investment returns, policy termination rates, operating expense levels, inflation, policyholder dividends and taxes. These assumptions cover the term of the liabilities being valued.

The following methods were used to establish the most significant assumptions:

Mortality

For individual life insurance, the Company conducts mortality experience studies annually. The expected mortality assumption is based on the results of these studies over the last few years. Overall, the Company's mortality experience has exhibited a gradually declining trend. However, no future mortality improvements are assumed in the calculation of policy liabilities for this block of business.

With respect to individual and group annuities, the assumption used is based on Company and industry experience. Emphasis is placed on industry experience where the Company's experience is insufficient to be statistically reliable. Mortality improvement has been projected to occur throughout the future lifetime of annuitants.

With respect to group insurance, the Company conducts mortality experience studies annually. The expected future mortality experience is incorporated into the calculation of policy liabilities for this block.

To manage the mortality risk, actual claims experience is monitored on a monthly basis. Reinsurance is utilized to limit the losses from any single claim or catastrophic event.

Morbidity

The Company uses industry experience tables appropriate to its type of business, modified to reflect emerging Company experience.

Investment Return

The Canadian Asset Liability Method (CALM) is the method prescribed by the standards of the Canadian Institute of Actuaries to ensure the adequacy of assets backing the policy liabilities.

The CALM involves projecting asset and liability cash flows for each business segment under a set of prescribed interest rate scenarios, plus additional scenarios chosen by the Appointed Actuary. Net cash flows are invested in new assets, if positive, or assets are sold or borrowed against to meet cash needs in accordance with the assumptions of each scenario. The policy liability is at least as great as the liability determined under the worst of the scenarios tested. Moreover, the projected asset cash flows include assumptions for investment expenses and credit risk.

The Company's financial position may be affected by interest rates. The uncertainty related to interest rate fluctuation is that economic losses or gains can occur following the disinvestment or reinvestment of future cash flows. The Company's policy of closely matching cash flows of the assets with those of corresponding liabilities reduces the risk of interest rate fluctuations.

Income Taxes

The policy liabilities were established to be consistent with the use of the future income taxes method of accounting for income taxes. Accordingly, policy liabilities are reduced by an amount of $54.7 ($74.5 as at December 31, 2001) to reflect the discounted value of policy-related tax cash flows in excess of future income tax liabilities.

Expenses

Policy maintenance expenses were calculated using the Company's internal expense studies. No productivity gains are projected. Unit expense factors are projected to increase in the future assuming an appropriate inflation rate.

Lapses

Expected lapse rate assumptions are generally based on the Company's recent lapse experience. Estimates of future lapse rates are adjusted to take into account industry experience where the experience of the Company is limited.

Long-term lapse rate assumptions take into account the emerging trend of lower lapse rates with respect to lapse supported types of products.

Years ended December 31, 2002 and 2001 (in millions of dollars)

11 Policy Liabilities (continued)

Provisions for Adverse Deviations

The best estimate assumptions are adjusted to include provisions for adverse deviations to recognize the uncertainty in establishing these best estimates and to allow for possible deterioration in expected experience. These provisions increase policy liabilities and provide reasonable assurance that the amount of assets backing the policy liabilities is sufficient to cover the impact of adverse experience.

The range for these provisions is set out in standards issued by the Canadian Institute of Actuaries. The factors considered in the selection of appropriate provisions include the degree of uncertainty with respect to the expected experience and the relative volatility of potential losses. To the extent that the amounts provided for adverse deviations are not required to offset future adverse experience, they will be released back into income over the remaining term of the policies.

Reinsurance

In the normal course of business, the Company uses reinsurance to limit its risk on every life insured and to limit the losses from a catastrophic event. For Industrial Alliance, the risk on individual life insurance is generally limited to $0.5, National Life to $0.4 ($0.1 for policies issued in 2002 and 2001) and for Industrial Alliance *Pacific* to $0.5 (US$0.25 for new issues in US). For group term life coverage, the current retention limit is $0.5 per life at Industrial Alliance, $0.2 at National Life and $0.3 at Industrial Alliance *Pacific*.

The Company also has reinsurance agreements covering the financial losses arising from multiple claims due to catastrophic events affecting several lives insured. Total policy liabilities on the balance sheet are presented net of reinsurance ceded.

Deferred Acquisition Costs

Deferred acquisition costs (DAC) are being held as a negative actuarial liability on the balance sheet. Acquisition costs are expenses incurred in the acquisition of individual segregated fund contracts which will be written off over the period of surrender charges. The liability recognizes the amount of future revenues that are available to recover the unamortized amount of the acquisition costs.

Changes in policy liabilities

	2002	2001
Balance at the beginning of the year	$ 7,021.5	$ 6,780.0
Policy liabilities acquired	—	6.8
Policy liabilities transferred	—	(34.3)
Changes in assumptions	(2.7)	(0.8)
Normal changes	288.1	251.0
Foreign currency translation	(0.3)	18.8
Balance at the end of the year	$ 7,306.6	$ 7,021.5

12 Deferred Net Realized Gains

Deferred net realized gains are realized gains and losses which have not yet been recognized in income. They will be amortized into future net investment income.

	2002	2001
Related to policy liabilities		
Bonds	$ 257.7	$ 250.0
Stocks	13.1	15.4
Mortgages	10.1	7.8
Real estate	6.5	7.2
	287.4	280.4
Related to equity		
Bonds	23.7	21.9
Stocks	0.2	13.0
Real estate	2.8	2.6
	26.7	37.5
Total	$ 314.1	$ 317.9

Years ended December 31, 2002 and 2001 (in millions of dollars)

13 Other Liabilities

Other liabilities consist of the following:

	2002	2001
Unearned premiums	$ 33.6	$ 22.5
Other contractual liabilities	11.8	8.7
Mortgage debt	40.9	47.9
Future income tax liabilities	136.1	133.8
Bank overdraft	—	4.6
Accounts payable and accrued:		
Due to reinsurers	12.0	5.4
Agent compensation	18.8	21.2
Administration fees payable	4.6	5.4
Income and premium taxes	53.1	28.6
Withholding taxes and deductions	12.7	13.5
Interest payable	2.1	12.8
Employee future benefits	34.7	38.7
Miscellaneous	125.6	100.6
Total	$ 486.0	$ 443.7

The reimbursement of the mortgage debt over the next five years will be:

2003	2004	2005	2006	2007
$ 1.1	$ 1.1	$ 1.2	$ 1.3	$ 1.4

The interest paid during the year 2002 is $4.2 ($4.6 in 2001).

14 Subordinated Debentures

Subordinated debentures represent direct unsecured obligations of the Company that are subordinate to the Company's policyholders and other creditors.

	2002		2001	
	Carrying value	Fair value	Carrying value	Fair value
Subordinated debenture bearing basic interest of 1.25% and variable interest tied primarily to the return on the investment fund, redeemable at the option of the Company beginning in February 2004 or repayable on maturity in 2010.	$ 60.0	$ 61.1	$ 60.0	$ 71.5
Series 2 subordinated debenture, bearing interest of 8.40%, redeemable at the option of the Company since June 2001 or repayable on maturity in 2006.	50.0	55.8	50.0	56.5
Series 3 subordinated debenture, bearing basic interest of 6.25% plus variable interest of no more than 5.25% under certain conditions, redeemable at the option of the Company beginning in February 2004 or repayable on maturity in 2010.	75.0	77.2	75.0	78.8
Total	$ 185.0	$ 194.1	$ 185.0	$ 206.8

Total interest on subordinated debt in 2002 was $14.1 ($14.6 in 2001).

For the debenture of $60.0, the fair value is the market value of the investment fund. For the other debenture, the fair value represents the value of a similar instrument on the market.

15 Share Capital

The authorized share capital consists of the following:

Common Shares

100,000,000 common shares without par value, with voting right, issuable at a global value not exceeding one billion dollars.

Preferred Shares

10,000,000 preferred shares with a par value of 25 dollars each, without voting right, with a non-cumulative dividend of 1% until 2004, to be subsequently revised at a rate that will be based on market prices, issuable in series with equal ranking as for dividend and capital.

3,000,000 Series 1 preferred shares, redeemable at the issuing value at the Company's option under certain conditions, including approval by the Inspector General of Financial Institutions, convertible at the option of the holder over a period of 4 years starting in 2001 in common shares at 95% of the market value of these shares. This conversion option may itself lead to a conversion of the series 1 preferred shares to series 2 preferred shares at the Company's option.

3,000,000 Series 2 preferred shares, issuable for the sole purpose of conversion of series 1 preferred shares, redeemable at the option of the Company at the issuing value increased by a 5.26% premium under certain conditions, including the necessity to proceed with the issue of series 3 preferred shares.

3,000,000 Series 3 preferred shares, redeemable after 5 years at their issue value subject to approval by the Inspector General of Financial Institutions or convertible to common shares at their market value.

	2002		2001	
	Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount
Common shares				
Balance at beginning of year	**37,648.2**	**$ 382.2**	37,580.8	$ 379.4
Shares issued	**—**	**—**	67.4	2.8
Balance at end of year	**37,648.2**	**382.2**	37,648.2	382.2
Shares held in treasury	**(10.8)**	**(0.2)**	(10.8)	(0.2)
	37,637.4	**382.0**	37,637.4	382.0
Preferred shares	**3,000.0**	**75.0**	3,000.0	75.0
Total share capital		**$ 457.0**		$ 457.0

On December 20, 2002, the Company announced its intention to make a normal course issuer bid. As part of this bid, the Company is authorized to purchase 1.875 million common shares at the market price until December 19, 2003. The common shares thereby purchased will not be cancelled and will remain available for future use.

Years ended December 31, 2002 and 2001 (in millions of dollars, unless otherwise indicated)

16 Earnings per Share

	2002	2001
Net income attributable to the shareholders	$ 100.7	$ 103.9
Less: Dividends on preferred shares	0.7	0.7
Net income attributable to common shareholders	100.0	103.2
Plus: Goodwill expense	—	3.4
Net income attributable to shareholders adjusted for goodwill expense	$ 100.0	$ 106.6
Weighted daily shares outstanding		
Basic	37,527,989	37,471,879
Diluted effect of stock options granted and outstanding	34,115	22,437
Diluted	37,562,104	37,494,316
Earnings per share (in dollars)		
Basic and diluted	$ 2.66	$ 2.75
Basic and diluted adjusted for goodwill expense	$ 2.66	$ 2.84

17 Stock-Based Compensation

Stock Option Plan

At the annual meeting of May 2, 2001, the shareholders approved the Company stock option plan for the directors and management personnel of the Company and its subsidiaries, set up on February 10, 2001. The board grants a certain number of common stock options to the management personnel and determines the exercise price of the options, the expiry date and the date on which the options can be exercised.

The exercise price of each option is equal to the average weighted price of the shares traded on the Toronto Stock Exchange during the five days of trading preceding the option grant date. The options are generally valid for 10 years. They can be exercised at the rate of 25% per year for the first four anniversaries of the grant.

A total of 2,630,652 common shares (about 7% of the outstanding common shares) can be granted by the board subject to an agreement of a maximum of 1.4% of the issued and outstanding common shares of the Company, per person eligible for the plan.

No options will be granted to the directors before the approval by the shareholders.

The following table presents the activities:

	2002		2001	
	Number of stock options (in thousands)	Weighted average exercise price (in dollars)	Number of stock options (in thousands)	Weighted average exercise price (in dollars)
At beginning of year	495.6	$ 38.11	—	$ —
Granted	473.0	45.62	495.6	38.11
Forfeited	(37.3)	38.92	—	—
At end of year	931.3	$ 41.89	495.6	$ 38.11
Exercisable at end of year	115.6	$ 38.11	—	$ —

Years ended December 31, 2002 and 2001 (in millions of dollars, unless otherwise indicated)

17 Stock-Based Compensation (continued)

Applying the fair value method of accounting to stock options for award granted in 2002, net earnings and earnings per share would have been as indicated below:

	2002
Net income attributable to shareholders – as reported	$ 100.7
Dividends on preferred shares	(0.7)
Stock-based compensation expense	(3.3)
Net income attributable to common shareholders – pro forma	$ 96.7
Earnings per share – as reported	$ 2.66
Earnings per share – pro forma	$ 2.57
Weighted average number of shares outstanding	37,527,989

Fair value of options was estimated to be $15.35 at the grant date using the Black-Scholes option pricing model. The pricing model assumes the following information:

Risk free interest rate	5.20%
Expected volatility	25%
Expected life	7 years
Expected dividends	1.51%

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option pricing models also require estimates which are highly subjective, including expected volatility of the underlying stock. Changes in assumptions can materially affect estimates of fair values.

Share Purchase Plan for Employees

The Company adopted an employee share purchase plan effective February 10, 2001. Under the plan, employees can contribute up to 5% of their salary to a maximum of 1,500 dollars per year. The Company matches 50% of the employee's contribution amount. The Company contribution is charged to the income statement as a general expense. The shares purchased by the employee share purchase plan have to be kept by the employees for a minimum period of two years before they can be sold.

Deferred Stock Unit Plan

The plan is offered to the directors and management personnel of the Company and its subsidiaries. Under this plan, each member may choose to receive all or a percentage of their annual incentive bonus or remuneration related to the board or committee. This election to participate must be made on an annual basis.

Years ended December 31, 2002 and 2001 (in millions of dollars, unless otherwise indicated)

18 Employee Future Benefits

The Company maintains defined benefit pension plans which provide a retirement income to most of its employees.

	2002		2001	
	Pension plans	Other plans	Pension plans	Other plans
Plan assets				
Assets at beginning (at market value)	$ 227.5	$ —	$ 226.0	$ —
Actual return on assets	0.6	—	2.0	—
Company contributions	6.6	—	5.6	—
Employee contributions	3.8	—	3.6	—
Benefits paid	(11.4)	—	(9.7)	—
Assets at end (at market value)	$ 227.1	$ —	$ 227.5	$ —
Plan obligations				
Accrued obligations at beginning	$ 227.8	$ 17.1	$ 211.0	$ 18.6
Current service cost	7.4	0.5	6.3	0.8
Interest cost	14.8	1.0	13.7	1.0
Employee contributions	3.8	—	3.7	—
Benefits paid	(11.4)	(0.3)	(9.7)	—
Gains on settlement	—	(2.7)	—	—
Actuarial (gains) losses	2.8	—	2.8	(3.3)
Accrued obligations at end	$ 245.2	$ 15.6	$ 227.8	$ 17.1
Accrued pension obligations are composed of:				
Funded plan	$ 210.7	$ —	$ 195.2	$ —
Unfunded plan	34.5	—	32.6	—
	$ 245.2	$ —	$ 227.8	$ —
Plan benefit liability				
Plan surplus (deficit)	$ (18.1)	$ (15.6)	$ (0.3)	$ (17.1)
Unamortized net actuarial (gains) losses	15.3	(1.2)	(1.7)	(1.8)
Accrued benefit liability	$ (2.8)	$ (16.8)	$ (2.0)	$ (18.9)
The Company's net benefit plan expense is as follows:				
Current service cost	$ 7.4	$ 0.5	$ 6.3	$ 0.8
Interest cost	14.8	1.0	13.7	1.0
Expected return on assets	(15.0)	—	(14.9)	—
Amortization of transitional obligation	(0.4)	—	(0.4)	—
Amortized actuarial gains	0.7	(0.7)	(0.3)	(0.7)
Gains on settlement	—	(2.7)	—	—
Net benefit plan expense	$ 7.5	$ (1.9)	$ 4.4	$ 1.1

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are:

	2002	2001
Discount rate	6.5%	6.5%
Expected long-term rate of return	6.5%	6.5%
Rate of compensation increase	3.5%	3.5%

The investment of the pension plan contains 142,675 common shares of the Company (372,676 in 2001) for a market value of $5.6 ($17.4 in 2001).

Years ended December 31, 2002 and 2001 (in millions of dollars)

19 Off Balance Sheet Financial Instruments

The Company is an end user of derivative financial instruments in the normal course of managing exposure to fluctuations in interest rates and market values.

The following table summarizes the Company's derivative portfolio, the fair value and related credit exposure.

	2002			
	Equity contracts	Currency contracts	Interest rate contracts	Total contracts
Notional amount by term to maturity				
Less than 1 year	$ 283.9	$ 46.7	$ 138.9	$ 469.5
1 to 5 years	95.3	42.6	64.4	202.3
Over 5 years	—	17.1	—	17.1
Total	$ 379.2	$ 106.4	$ 203.3	$ 688.9
Fair value	$ 3.5	$ (5.6)	$ (5.5)	$ (7.6)
Credit exposure risk				
Maximum credit risk	$ 7.4	$ —	$ —	$ 7.4
Potential future credit exposure	23.6	3.9	0.3	27.8
Credit equivalent amount	$ 31.0	$ 3.9	$ 0.3	$ 35.2

	2001			
	Equity contracts	Currency contracts	Interest rate contracts	Total contracts
Notional amount by term to maturity				
Less than 1 year	$ 218.2	$ 49.2	$ 43.0	$ 310.4
1 to 5 years	163.8	51.8	109.4	325.0
Over 5 years	—	18.3	—	18.3
Total	$ 382.0	$ 119.3	$ 152.4	$ 653.7
Fair value	$ 19.1	$ (4.2)	$ (4.3)	$ 10.6
Credit exposure risk				
Maximum credit risk	$ 19.1	$ —	$ —	$ 19.1
Potential future credit exposure	25.7	4.5	0.5	30.7
Credit equivalent amount	$ 44.8	$ 4.5	$ 0.5	$ 49.8

Years ended December 31, 2002 and 2001 (in millions of dollars)

19 Off Balance Sheet Financial Instruments (continued)

The notional amount represents the amount to which a rate or price is applied to determine the cash flows to be exchanged and does not represent direct credit exposure. Maximum credit risk is the estimated cost of replacing all derivative contracts which have a positive value, should the counterparty default. Potential future credit exposure quantifies the potential for future losses which may result from future movement in market rates. The Company's exposure at each balance sheet date is limited to the risk that a counterparty does not honour the terms of a derivative contract, and the Company applies the same criteria in selecting counterparties as it does for investing in bonds. As at December 31, 2002 and 2001 all counterparties have a credit rating of A or higher.

The fair value of derivative financial instruments represents the estimated amount that the Company should pay or receive on the balance sheet date to reverse its position.

20 Segmented Information

The Company operates principally in one dominant industry segment, the life and health insurance industry, and offers individual and group life and health insurance products, savings and retirement plans, and segregated funds.

Segmented income statements

	2002					
	Individual		Group			
	Life and Health	Annuities	Life and Health	Pensions	Other activities*	Total
Revenues						
Premium income	$ 663.9	$ 590.7	$ 543.0	$ 491.4	$ 48.2	$ 2,337.2
Investment income	98.2	140.8	56.2	158.6	(3.6)	450.2
Fees and other revenues	3.3	67.6	5.5	4.1	14.8	95.3
	765.4	799.1	604.7	654.1	59.4	2,882.7
Operating expenses						
Cost of commitments to policyowners	393.8	241.8	409.7	331.9	34.1	1,411.3
Net transfer to segregated funds	—	447.7	—	290.2	—	737.9
Commissions, general and other expenses	293.7	83.7	167.4	18.3	26.8	589.9
	687.5	773.2	577.1	640.4	60.9	2,739.1
Net income before income taxes	77.9	25.9	27.6	13.7	(1.5)	143.6
Income taxes	(19.9)	(7.0)	(8.1)	(2.1)	0.3	(36.8)
Net income before allocation of other activities	58.0	18.9	19.5	11.6	(1.2)	106.8
Allocation of other activities	(0.6)	(0.3)	(0.1)	(0.2)	1.2	—
Net income for the year	$ 57.4	$ 18.6	$ 19.4	$ 11.4	$ —	$ 106.8
Attributable to shareholders	$ 52.2	$ 18.7	$ 19.4	$ 10.4	$ —	$ 100.7
Attributable to participating policyholders' account	$ 5.2	$ (0.1)	$ —	$ 1.0	$ —	$ 6.1

* Includes other segments and intercompany eliminations.

Years ended December 31, 2002 and 2001 (in millions of dollars)

20 Segmented Information (continued)

Segmented income statements (continued)

	2001					
	Individual		Group			
	Life and Health	Annuities	Life and Health	Pensions	Other activities*	Total
Revenues						
Premium income	$ 658.8	$ 529.1	$ 449.8	$ 407.0	$ 32.3	$ 2,077.0
Investment income	168.0	151.5	55.2	165.1	2.5	542.3
Fees and other revenues	6.5	66.9	3.9	7.8	8.5	93.6
	833.3	747.5	508.9	579.9	43.3	2,712.9
Operating expenses						
Cost of commitments to policyowners	483.8	153.7	355.2	365.3	22.3	1,380.3
Net transfer to segregated funds	—	480.0	—	172.8	—	652.8
Commissions, general and other expenses	268.6	81.2	136.1	18.1	22.9	526.9
	752.4	714.9	491.3	556.2	45.2	2,560.0
Net income before income taxes	80.9	32.6	17.6	23.7	(1.9)	152.9
Income taxes	(22.4)	(11.3)	(5.6)	(7.3)	0.3	(46.3)
Net income before allocation of other activities	58.5	21.3	12.0	16.4	(1.6)	106.6
Allocation of other activities	(0.9)	(0.3)	(0.1)	(0.3)	1.6	—
Net income for the year	$ 57.6	$ 21.0	$ 11.9	$ 16.1	$ —	$ 106.6
Attributable to shareholders	$ 55.7	$ 21.0	$ 11.9	$ 15.3	$ —	$ 103.9
Attributable to participating policyholders' account	$ 1.9	$ —	$ —	$ 0.8	$ —	$ 2.7

Segmented assets

	2002					
	Individual		Group			
	Life and Health	Annuities	Life and Health	Pensions	Other activities*	Total
Assets						
Investments	**$ 3,920.2**	**$ 1,978.4**	**$ 811.1**	**$ 2,102.6**	**$ 122.6**	**$ 8,934.9**
Goodwill	**30.3**	**—**	**19.9**	**—**	**1.7**	**51.9**
Other assets	**98.5**	**34.4**	**49.4**	**45.9**	**74.2**	**302.4**
Total	**$ 4,049.0**	**$ 2,012.8**	**$ 880.4**	**$ 2,148.5**	**$ 198.5**	**$ 9,289.2**

	2001					
	Individual		Group			
	Life and Health	Annuities	Life and Health	Pensions	Other activities*	Total
Assets						
Investments	$ 3,668.2	$ 2,000.4	$ 763.0	$ 2,091.7	$ 47.4	$ 8,570.7
Other assets	88.0	33.8	51.1	57.8	84.9	315.6
Total	$ 3,756.2	$ 2,034.2	$ 814.1	$ 2,149.5	$ 132.3	$ 8,886.3

* Includes other segments and intercompany eliminations.

Years ended December 31, 2002 and 2001 (in millions of dollars)

20 Segmented Information (continued)

Supplementary information

	2002		2001	
	Individual	Group	Individual	Group
Annuity premiums				
Invested in general fund	$ 198.7	$ 126.7	$ 147.4	$ 215.9
Invested in segregated funds	392.0	364.7	381.7	191.1
	$ 590.7	$ 491.4	$ 529.1	$ 407.0

21 Cash and Cash Equivalents

Cash and cash equivalents, at end of year, are composed of the following items:

	2002	2001
Cash and cash equivalents	$ 305.1	$ 247.1
Bank overdraft	—	(4.6)
	$ 305.1	$ 242.5

22 Comparative Figures

Certain comparative figures have been restated to comply with the current year's presentation.

Auditors' Report

To the shareholders of Industrial-Alliance Life Insurance Company

We have audited the consolidated balance sheets of Industrial-Alliance Life Insurance Company and the consolidated statements of net assets of its segregated funds as at December 31, 2002 and 2001 and the consolidated statements of income, shareholders' retained earnings, participating policyholders' account, cash flows and changes in net assets of the segregated funds for the years then ended. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Industrial-Alliance Life Insurance Company and of its segregated funds as at December 31, 2002 and 2001 and the results of its operations, its cash flows and the changes in net assets of the segregated funds for the years then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair
Deloitte & Touche, s.e.n.c.

Samson Bélair Deloitte & Touche
Chartered Accountants
Quebec City, January 31, 2003

Five-Year History

Consolidated Financial Data

Years ended December 31 (in millions of dollars, unless otherwise indicated)

	Stock Company				Mutual Company	
	2002	2001	2000	1999 (pro forma)	1999	1998
Profitability and Capitalization						
Net income						
Total net income	106.8	106.6	100.8	82.0	83.4	69.7
Net income to participating policyholders	6.1	2.7	2.7	7.0	—	—
Net income to shareholders	100.7	103.9	98.1	75.0	83.4	69.7
Goodwill expense	—	3.4	2.9	2.8	2.8	1.5
Adjusted net income	100.7	107.3	101.0	77.8	86.2	71.2
Unusual items	—	—	6.0	5.3	5.3	—
Provision for Teleglobe	19.4	—	—	—	—	—
Normalized net income	120.1	107.3	95.0	72.5	80.9	71.2
Rate of return on equity						
Excluding goodwill expense	12.2%	14.4%	15.4%	13.5%	14.0%	13.3%
Excluding goodwill expense and unusual items	12.2%	14.4%	14.5%	12.6%	13.2%	13.3%
Excluding goodwill expense, unusual items and provision for Teleglobe	14.4%	14.4%	14.5%	12.6%	13.2%	13.3%
Earnings per share						
Basic and diluted	$ 2.66	$ 2.75	$ 2.59	$ 1.98	—	—
Excluding goodwill expense	$ 2.66	$ 2.84	$ 2.67	$ 2.06	—	—
Excluding goodwill expense and unusual items	$ 2.66	$ 2.84	$ 2.51	$ 1.91	—	—
Excluding goodwill expense, unusual items and provision for Teleglobe	$ 3.18	$ 2.84	$ 2.51	$ 1.91	—	—
Earnings per share by line of business[1]						
Individual Insurance	$ 1.82	$ 1.52	$ 1.26	$ 0.99	—	—
Group Insurance	$ 0.52	$ 0.34	$ 0.12	$ (0.07)	—	—
Individual Annuities	$ 0.50	$ 0.56	$ 0.71	$ 0.65	—	—
Group Pensions	$ 0.34	$ 0.42	$ 0.42	$ 0.34	—	—
Total	$ 3.18	$ 2.84	$ 2.51	$ 1.91	—	—
Book value per share	$ 22.92	$ 20.98	$ 18.72	$ 16.88	—	—
Capital base						
Subordinated debentures	185.0	185.0	185.0	185.0	185.0	110.0
Participating policyholders' account	59.5	53.4	50.7	47.9	—	—
Common shares	382.0	382.0	379.2	591.8	—	—
Preferred shares	75.0	75.0	75.0	75.0	75.0[2]	—
Retained earnings	473.5	397.6	316.9	—	647.8	570.5
Currency translation account	7.5	10.2	7.4	5.1	5.1	12.7
Total	1,182.5	1,103.2	1,014.2	904.8	912.9	693.2
Debt to capital ratio	15.6%	16.8%	18.2%	20.4%	20.3%	15.9 %
MCCSR[3]	186%	187%	187%	—	181%	182 %
Market Data						
Share price	$ 39.49	$ 46.65	$ 40.65[4]	—	—	—
Number of shares outstanding (in millions)	37.65	37.65	37.65	—	—	—
Market capitalization	1,486.8	1,756.3	1,527.7	—	—	—
Dividends per share	$ 0.64	$ 0.60	$ 0.15	—	—	—

1 Excluding goodwill expense, unusual items and Teleglobe provision
2 Preferred equity securities
3 Minimum continuing capital and surplus requirements: ratio
4 The shares were issued on February 3, 2000 at $15.75 per share

Years ended December 31 (in millions of dollars, unless otherwise indicated)

		Stock Company			Mutual Company	
	2002	2001	2000	1999 (pro forma)	1999	1998
Business Growth						
Total premiums						
Including CMA[5]	2,337.2	2,077.0	2,239.0	2,009.2	2,009.2	1,788.2
Excluding CMA	2,335.7	1,889.0	1,815.4	1,593.7	1,593.7	1,339.9
Net investment income	450.2	542.3	599.2	743.2	743.2	598.5
Fees and other income	95.3	93.6	88.1	68.0	68.0	49.1
Total revenues						
Including CMA	2,882.7	2,712.9	2,926.3	2,820.4	2,820.4	2,435.8
Excluding CMA	2,881.2	2,524.9	2,502.7	2,404.9	2,404.9	1,987.5
Individual Insurance						
Sales (excluding CMA, annualized premiums)	133.3	135.6	125.3	114.4	114.4	80.8
Premiums						
Including CMA	663.9	658.8	607.8	534.6	534.6	416.3
Excluding CMA	663.9	642.8	597.8	534.6	534.6	416.3
Group Insurance						
Sales						
Employee benefit plans (annualized premiums)	92.4	59.1	37.4	37.9	37.9	33.1
Special Markets Group (SMG) (net premiums)	65.7	32.3	27.8	23.2	23.2	—
Creditor insurance (gross premiums)	124.5	108.0	100.3	90.5	90.5	12.4
Premiums (including ASO)	586.9	483.3	417.9	356.5	356.5	233.5
Individual Annuities						
Sales (premiums)	590.7	529.1	613.8	477.3	477.3	502.6
Funds under management						
General funds	1,737.5	1,721.7	1,786.0	2,003.8	2,003.8	1,724.6
Segregated funds	2,795.2	2,928.1	2,859.8	2,560.4	2,560.4	1,789.1
Total	4,532.7	4,649.8	4,645.8	4,564.2	4,564.2	3,513.7
Group Pensions						
Sales (excluding CMA)	561.3	344.1	257.5	220.8	220.8	161.3
Premiums						
Including CMA	491.4	407.0	616.5	636.3	636.3	609.6
Excluding CMA	489.9	235.0	202.8	220.8	220.8	161.3
Funds under management						
Including CMA	2,984.9	2,716.4	4,178.1	3,903.3	3,903.3	3,465.7
Excluding CMA	2,956.5	2,687.6	2,657.2	2,530.8	2,530.8	2,428.3
Assets under management/administration						
General funds	9,289.2	8,886.3	8,571.8	9,652.3	9,652.3	8,083.1
Segregated funds	4,173.5	4,049.6	5,432.8	3,382.3	3,382.3	2,540.6
Other	3,298.2	2,192.7	90.6	6.8	6.8	—
Total	16,760.9	15,128.6	14,095.2	13,041.4	13,041.4	10,623.7
General Expenses and Human Resources						
General expenses	226.6	212.0	205.4	192.0	189.9	145.6
Human resources						
Number of employees (life insurance companies)	2,110	2,035	1,948	1,932	1,932	1,611
Number of Career agents	1,310	1,270	1,218	1,187	1,187	1,216

[5] Canadian Medical Association

Years ended December 31 (in millions of dollars, unless otherwise indicated)

	Stock Company				Mutual Company	
	2002	2001	2000	1999 (pro forma)	1999	1998
Investments						
Book value	8,934.9	8,570.7	8,260.9	9,333.3	9,333.3	7,828.0
Market value	9,751.8	9,173.7	8,839.9	9,733.6	9,733.6	8,783.2
Market value/book value ratio	109.1%	107.0%	107.0%	104.2%	104.2%	112.2%
Distribution of investments by asset category						
Bonds	52.4%	48.9%	46.9%	47.5%	47.5%	47.8%
Mortgages	28.3%	31.0%	33.0%	35.9%	35.9%	36.2%
Stocks	8.1%	8.2%	8.6%	6.9%	6.9%	5.1%
Real estate	4.9%	5.0%	4.8%	4.2%	4.2%	4.1%
Other	6.3%	6.9%	6.7%	5.5%	5.5%	6.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Distribution of investments by region						
Atlantic provinces	5.3%	4.4%	4.0%	4.1%	4.1%	4.4%
Quebec	50.5%	49.3%	49.8%	45.4%	45.4%	51.8%
Ontario	20.3%	20.5%	20.1%	23.0%	23.0%	19.6%
Western provinces	18.1%	18.5%	20.2%	22.7%	22.7%	17.7%
Outside Canada	5.8%	7.3%	5.9%	4.8%	4.8%	6.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Quality of Investments						
Gross impaired investments	60.4	39.8	35.7	38.0	38.0	83.6
Provisions for losses	41.1	15.7	14.3	14.1	14.1	22.2
Net impaired investments	19.3	24.1	21.4	23.9	23.9	61.4
Net impaired investments as a % of investments	0.22%	0.28%	0.26%	0.26%	0.26%	0.79%
Provision as a % of gross impaired investments	68.0%	39.1%	39.9%	37.1%	37.1%	26.5%
Bonds						
Rating A and higher	92.2%	91.4%	92.6%	92.5%	92.5%	91.6%
Rating BBB	7.7%	8.6%	7.2%	7.4%	7.4%	8.1%
Rating BB and lower	0.1%	—	0.2%	0.1%	0.1%	0.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Delinquency rate	0.03%	0.03%	0.00%	0.00%	0.00%	0.23%
Mortgages						
Single family	18.4%	18.7%	19.0%	16.2%	16.2%	18.1%
Multi-residential	52.5%	51.3%	49.7%	56.9%	56.9%	58.4%
Commercial, industrial and other	29.1%	30.0%	31.3%	26.9%	26.9%	23.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Delinquency rate						
Insured loans	0.80%	0.27%	0.48%	0.52%	0.52%	0.85%
Conventional loans	0.69%	0.62%	0.08%	0.12%	0.12%	0.31%
Total	0.74%	0.48%	0.23%	0.28%	0.28%	0.54%
Proportion of loans which are insured	45.3%	40.9%	39.3%	39.7%	39.7%	41.5%
Proportion of delinquent loans which are insured	49.0%	23.3%	80.4%	74.2%	74.2%	65.9%
Real estate						
Occupancy rate	92.1%	96.3%	96.7%	95.1%	95.1%	91.0%
Stocks						
Market value/book value ratio	96.1%	98.2%	102.1%	107.4%	107.4%	102.1%

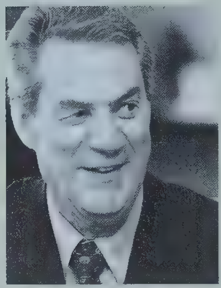
Board of Directors
of Industrial-Alliance Life Insurance Company

Raymond Garneau
O.C., M.C.Sc., L.E.Sc.
Chairman of the Board
Industrial-Alliance
Life Insurance Company

Gilles Laroche – Eng.
Vice-Chairman of the Board
Corporate Director

Dr. Francesco Bellini
Ph.D., O.C., G.U.
Chairman of the Board
Picchio International Inc.

Raymond Garneau
■ ● ▲ ◆



Gilles Laroche
■ ▲

Dr. Francesco Bellini
▲

Louis Bernard
O.Q., B.A., LL. L., M.A., Ph.D.
Louis Bernard Consultant inc.

Pierre Brodeur
President and Chief Executive Officer
Sico Inc.

Yvon Charest
F.S.A., F.C.I.A.
President and Chief Executive Officer
Industrial-Alliance
Life Insurance Company

Louis Bernard
■ ❖

Pierre Brodeur
●

Yvon Charest
■

Anne Dutil
Adm., B.A., B.Com.C.
President
Placements Lacroix Dutil, inc.

Michel Gervais
Ph.D., O.C., O.Q.
Executive Director
Centre hospitalier Robert-Giffard

Lise Lachapelle
B.A.A.
Corporate Director

Anne Dutil
❖

Michel Gervais
❖

Lise Lachapelle
■ ▲

John LeBoutillier
LL.L., M.B.A.
Chairman of the Board
Intellium Technologies Inc.

Jean Marier
LL.L.
Corporate Director

Francis McGuire
President and Chief Executive Officer
Major Drilling
Group International Inc.

John Leboutillier

Jean Marier

Francis McGuire

Jim Pantelidis
B.Sc., M.B.A.
President
J.P. & Associates Ltd.

David R. Peterson
P.C., Q.C., LL.D.
Chairman
Cassels Brock & Blackwell LLP

Guy Savard
FCA, C.M.
Vice-Chairman and Chairman
Quebec Operations
Merrill Lynch Canada Inc.

Jim Pantelidis

David R. Peterson

Guy Savard

Secretary of the Board
Georges Smith – LL.L., F.C.G.A.

Assistant Secretary
Mylène Sabourin – LL.L., LL.M.

- ■ Executive Committee
- ● Investment Committee
- ❖ Audit Committee
- ▲ Human Resources and Corporate Governance Committee
- ◆ Ethics Committee

Industrial Alliance Insurance and Financial Services

- • **Yvon Charest** – F.S.A., F.C.I.A.
  President and Chief Executive Officer
- • **Normand Pépin** – F.S.A., F.C.I.A.
  Executive Vice-President
  Life Subsidiaries &
  Individual Insurance and Annuities
- • **Yvon Côté** – CFA
  Vice-President and General Manager
  Finance and Investments
- **Michel Gauthier**
  B.Sc. Math., C.M.A., F.L.M.I.
  Vice-President and General Manager
  Administration
  Individual Insurance and Annuities
- **Michel Sanschagrin** – F.S.A., F.C.I.A.
  Vice-President and General Manager
  Administration
  Chief Actuary
- **Georges Smith** – LL. L., F.C.G.A.
  Vice-President and General Manager
  Corporate Affairs
  Secretary of the Company
- **Raymond A. Bertrand** – CLU, F.L.M.I.
  Vice-President, Sales, Career Section
- **Jacques Carrière** – M.E.Sc.
  Vice-President,
  Investor Relations and
  Secretary of the Management Committee
- **René Chabot** – F.S.A, FC.I.A.
  Vice-President, Group Pensions
- **Réjean Devin** – B. Sc. Phys., F.L.M.I.
  Vice-President, Information Systems
- •• **Louis Falardeau** – CFA
  Vice-President
  Investments, Segregated Funds
- •• **Maurice Germain** – F.S.A., FC.I.A.
  Vice-President, Internal Audit
- **Paul R. Grimes** – CFP, CLU, Ch.F.C.
  Vice-President, Sales, Ontario
- •• **Richard Legault** – CA, CFA
  Vice-President
  Investments, General Funds
- **Bruno Michaud** – B.A.A., F.L.M.I./M.
  Vice-President, Sales
  General Agents Section
  Quebec and the Atlantic Provinces
- **Joe O'Farrell** – C.M.A., F.L.M.I.
  Vice-President
  Human Resources
- •• **Jean-Pierre Paradis**
  Vice-President, Mortgage Loans
- •• **Jacques Parent** – F.S.A., FC.I.A.
  Vice-President
  Sales and Underwriting
  Group Insurance
- **Denis Ricard** – F.S.A., F.C.I.A.
  Vice-President
  Marketing
  Individual Insurance and Annuities
- **Yvon Sauvageau** – M.E.Sc.
  Vice-President
  Development, Financial Services
- **Claude Tessier** – B. Sc. A.
  Vice-President
  Real Estate Investments

The National Life Assurance Company of Canada

- • **Vincent P. Tonna** – C.G.A.
  President and Chief Operating Officer
- **David H. Creswell** – B.A., LL.B., F.L.M.I.
  General Counsel and Corporate Secretary
- **René E. Trudeau**
  B.Sc., F.S.A., FC.I.A., M.A.A.A.
  Senior Vice-President and Chief Actuary
- **Sharon Smith** – B.A.
  Vice-President, Individual Administration
- **Herbert Huck** – B.A.A., C.A., C.M.A.
  Vice-President, Taxation
  and Advanced Marketing
- •• **Refat A. Jiwani**
  F.C.C.A., C.M.A., F.L.M.I.
  Vice-President and Corporate Controller
- •• **David E. Kent** – B.A., M.A., M.B.A.
  Vice-President, Group Insurance
- **Gary J. Coles** – F.L.M.I./M., A.C.S.
  Vice-President, Systems and Services
- **Emil J. Petko** – B.A., LL. B.
  Vice-President and
  Associate General Counsel
- **Susan Stanfield** – C.H.R.P.
  Vice-President, Human Resources
  and Communications
- **Brian E. Wrixon** – CLU
  Vice-President, Individual Sales

Industrial Alliance *Pacific* Insurance and Financial Services

- • **John B. Gill** – M.B.A.
  President
- **Gerald Bouwers** – F.S.A., F.C.I.A.
  Vice-President and General Manager
  Individual Insurance and Annuities, Canada
- **Ronald W. Pepper** – A.S.A., M.A.A.A.
  Vice-President and General Manager
  Individual Insurance, U.S.
- **Michael L. Stickney**
  M.B.A., F.S.A., F.C.I.A.
  Vice-President and General Manager
  Group Insurance
- **Douglas A. Carrothers** – LL. B., M.B.A.
  Vice-President, Law and Investments
  and Corporate Secretary
- **Kathryn M. Cooper**
  Vice-President, Human Resources
- **Paul R. Grimes** – CFP, CLU, Ch.F.C.
  Vice-President, Sales, Ontario
- **Douglas J. Hart** – B. Comm.
  Vice-President, Sales, SAL
- **Alnoor R. Jiwani**
  Vice-President, Information Services
- **Gordon A. Robinson** – M.A.
  Vice-President and Controller

Industrial Alliance Auto and Home Insurance

- **Michel Laurin** – F.C.I.A., F.C.A.S.
  President and Chief Operating Officer
- **Jocelyne Guay**
  Vice-President, Operations

Industrial Alliance Securities Inc.

- **Gaétan Plante** – F.C.S.I.
  President

• Member of the Planning Committee

•• Responsibilities on the Group level (life companies)

Offices

Industrial Alliance Insurance and Financial Services

Head Office – Quebec City
1080 Saint-Louis Road, Sillery
PO Box 1907, Station Terminus
Quebec City, QC G1K 7M3
(418) 684-5000
1-800-463-6236
www.inalco.com

• **Ontario Regional Office**
160 Eglinton Avenue E., 7th Floor
Toronto, ON M4P 3B5
(416) 487-0242

Group Insurance Employee Plans

Atlantic Provinces
Regional Sales Office – Halifax
238 Brownlow Avenue, Suite 320
Dartmouth, NS B3B 1Y2
(902) 422-6479
1-800-255-2116

Quebec City
3700 rue du Campanile, Suite 107
Sainte-Foy, QC G1X 4G6
(418) 650-1821

Montreal
680 Sherbrooke Street West
9th Floor
Montreal, QC H3A 2S6
(514) 499-3750

Toronto
522 University Avenue
Toronto, ON M5G 1Y7
(416) 585-8055

Calgary
777 8th Avenue West, Suite 2050
Calgary, AB T2P 3R5
(403) 303-4454

Vancouver
1055 West Hastings Street, Suite 1130
Vancouver, BC V6E 2E9
(604) 689-0388

Mortgage Loans

Quebec City
925 Saint-Louis Road, Suite 300
Quebec City, QC G1S 1C1
(418) 686-7738

Montreal
2000 McGill College Avenue
Suite 800
PO Box 790, Station B
Montreal, QC H3B 3K6
(514) 499-6680

Group Pensions

Atlantic Provinces
Regional Sales Offices – Halifax
238 Brownlow Avenue, Suite 320
Dartmouth, NS B3B 1Y2
(902) 422-6479
1-800-255-2116

Quebec City
3700 rue du Campanile, Suite 103
Sainte-Foy, QC G1X 4G6
(418) 653-4097
1-800-549-4097

Montreal
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Suite 900
PO Box 790, Station B
Montreal, QC H3B 3K6
(514) 499-6600
1-800-697-9767

Toronto
522 University Avenue
8th floor
Toronto, ON M5G 1Y7
(416) 585-8839
1-877-902-4920

The National Life Assurance Company of Canada

Head Office – Toronto
522 University Avenue
Toronto, ON M5G 1Y7
(416) 598-2122
www.NationalLife.ca

Industrial Alliance *Pacific* Insurance and Financial Services

Head Office – Vancouver
2165 Broadway West
PO Box 5900
Vancouver, BC V6B 5H6
(604) 734-1667
www.iaplife.com

Group Insurance Special Markets Group

Montreal
680 Sherbrooke St. West
Suite 110
PO Box 798, Station B
Montreal, Qc H3B 3K6
(514) 499-3748
1-866-499-3748

Toronto
515 Consumers Road, Suite 400
Toronto, ON M2J 4Z2
(416) 498-8319
1-800-611-6667

Calgary
777 8th Avenue West, Suite 2050
Calgary, AB T2P 3R5
(403) 266-7582
1-800-661-1699

Vancouver
2165 Broadway West
PO Box 5900
Vancouver, BC V6B 5H6
(604) 734-1667
1-888-725-2886

Industrial Alliance Auto and Home Insurance

Head Office – Quebec City
925 Saint-Louis Road, Suite 340
Quebec City, QC G1S 1C1
(418) 650-4600
1-800-463-4382
www.inalco.com

Industrial Alliance Securities Inc.

Head Office – Quebec City
1080 Saint-Louis Road, Sillery
PO Box 1907, Station Terminus
Quebec City, QC G1K 7M3
(418) 684-5171
1-866-684-5171
www.inalco.com

Investia Financial Services Inc.

Head Office – Quebec City
1080 Saint-Louis Road, Sillery
PO Box 1907, Station Terminus
Quebec City, QC G1K 7M3
(418) 684-5548
1-888-684-5548
www.investia.ca

• Regional office in Toronto for Industrial Alliance Insurance and Financial Services and Industrial Alliance *Pacific* Insurance and Financial Services

How to reach us

There are three departments you may contact, depending on the type of information you would like to obtain:

1

If you have questions about your shares, contact Computershare Trust Company of Canada, Industrial Alliance's share transfer agent at:

Telephone: **1-877-684-5000 (toll-free)**
E-mail: **inalco@computershare.com**

2

For financial information on Industrial Alliance, contact the Investor Relations Department at:

Telephone: **(418) 684-5000, extension 5282**
1-800-463-6236, extension 5282 (toll-free)
Fax: **(418) 684-5050**
E-mail: **shares@inalco.com**

3

For questions concerning your insurance or annuity contracts or for information on Industrial Alliance's products and services, contact your agent or one of the Industrial Alliance offices listed on page 79 of this report.

Three Industrial Alliance Group companies market and distribute their products and services under a commercial name, different from their legal name. The logo identifying each of these companies includes the commercial name, rather than the legal name. When necessary, the symbol ™ is added to the logo to indicate the use of the commercial name.

Legal name:
Industrial-Alliance
Life Insurance Company

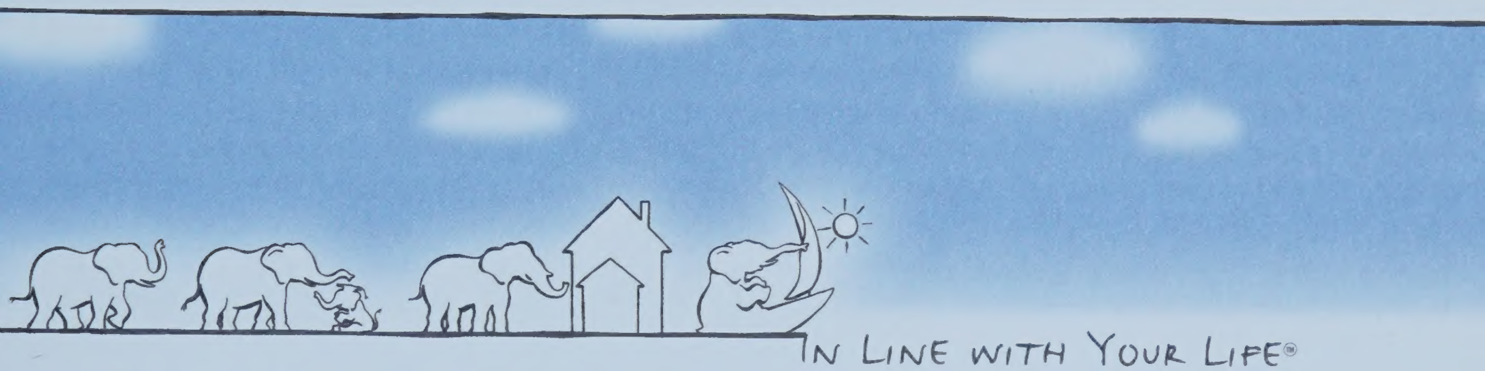
Commercial name:
Industrial Alliance
Insurance and Financial Services

Legal name:
Industrial-Alliance *Pacific*
Life Insurance Company

Commercial name:
Industrial Alliance Pacific
Insurance and Financial Services

Legal name:
Industrial-Alliance
General Insurance Company

Commercial name:
Industrial Alliance
Auto and Home Insurance



This annual report was designed by the Communications, Accounting, Investor Relations and Public Relations Departments of Industrial Alliance.

For more information or to obtain additional copies of this annual report, please contact:

Industrial Alliance
Insurance and Financial Services
1080 Saint-Louis Road, Sillery
PO Box 1907, Station Terminus
Quebec City, QC G1K 7M3

Telephone: **(418) 684-5000, extension 5282**
1-800-463-6236, extension 5282 (toll-free)

Fax: **(418) 684-5050**
E-mail: **shares@inalco.com**

A section of our Web site – *Investor Relations* – is specifically designed for shareholders and investors. It contains the Company's main financial information.

Legal Deposit: March 2003
Bibliothèque nationale du Québec
National Library of Canada

Ce rapport annuel est aussi disponible en français.

www.inalco.com

INDUSTRIAL ALLIANCE ™
INSURANCE AND FINANCIAL SERVICES